THE INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
NEW DELHI.

SEMINAR
ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"

SESSION I
10.00 a.m. - 1.00 p.m.

Friday, 3rd March

Subject:	Concept, Issues and Approach
Chairman:	Prof. Y.K. Alagh
Papers by:	Shri C.S. Chandrashekhar Shri P. Prabhakar Rao & Shri K.V.Sundaram Miss Hemlata Rao Shri L.S. Bhat Shri Y. Venugopal Reddy.

SESSION II
3.00 p.m. - 5.00 p.m.

Friday, 3rd March

Subject:	Industrial Policy
Chairman:	Dr. H.K. Paranjape
Papers by:	Prof. Y.K. Alagh Dr. A.N. Bose Dr. K. Mukerji Shri I.R. Khurana Prof. Pradhan H. Prasad Prof. G.S. Bhalla.

SESSION III
10.00 a.m. - 1.00 p.m.

Saturday, 4th March

Subject:	Financial & Fiscal and Administration Measures
Chairman:	Prof. M.J.K. Thavaraj
Papers by:	Prof. M.J.K. Thavaraj Prof. J.C. Sandesara Shri O.P. Mathur Prof. Deva Raj

SESSION IV
3.00 p.m. - 5.00 p.m.

Saturday, 4th March

Subject:	Summing up
Chairman:	Prof. S. Chakravarty

Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - PROBLEMS AND POLICIES"
(with special reference to Industry)
March 3&4, 1972.

"CLOSING THE REGIONAL GAP: SOME POLICY OPTIONS

by

Om Prakash Mathur

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI:

CLOSING THE REGIONAL GAP: SOME POLICY OPTIONS.

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Planning Commission

The most simple explanation of imbalances between regions - which still remains unscathed in economic literature is that economic growth does not start simultaneously at all points within a country. Some regions are locationally preferred which make possible growth in them and not in others. As the process of development gains momentum, the regions, which were initially favoured because of certain locational advantages, continue to attract people, trade, manufacturing and capital, not only because of resource advantages but because of the external economies offered by the growth regions. The resultant differential rates of regional economic growth, once established, tend to increase the per capita gap in incomes and the level of services and activities between the growth regions and the lagging regions. Even a perfunctory analysis of most countries, whether in the category of developed or developing, will show the existence of regional economic differences, though for some these differences may be more appalling than for others.[1]

With the increasing concern for the distributive aspects of economic development, the phenomenon of unequal

1. Robinson, E.A.G. Ed.; Backward Areas in Advanced Countries, Mc Millan, 1969.

* The views expressed in this paper are personal.

rates of economic growth of regions within a country has encouraged policy-makers to consider, among other goals, regional development as an explicit goal of national economic policies. In fact, balanced regional development figures alongwith other conventional goals such as economic growth and income distribution in the charter of national goals in almost all countries. Closing the gap between the growing and lagging regions has become a political and social imperative. The Mezzogiorno in South Italy, Sudene in Northeastern Brazil, Fribourg in Switzerland are examples of this growing social concern to reduce regional differences. In India, the relative centralization of economic activities in some parts of the country has given rise to discussions about policies designed to diffuse growth to wider areas. At the same time, the abundant natural resources of Bihar, Madhya Pradesh, Orissa and Rajasthan and the stagnant regions of Eastern Uttar Pradesh, Rayalaseema, Telangana, Vidarbha and many others have been subject to national considerations in order to steer growth in these directions. There have also been compelling reasons in favour of policies that will accelerate the growth rates to a level that would provide, in the shortest possible time, a minimum of services and living-base whatever that might mean. The central policy issue then, though never posed in this way, is how to achieve rapid development in lagging and backward regions without slowing down the development

of the more progressive and dynamic regions. It may be argued, on the one hand, that the rate of growth of GNP should not be lowered by the diversion of investible resources merely to satisfy regional interests and that it may actually be better to concentrate investments in the most promising areas. On the other hand, it is suggested that such a policy may further increase the gap between the growing and backward regions. Clearly this has led us into a situation where without trade-offs these conflicting political, economic and social considerations cannot be easily reconciled.

This paper is largely concerned with the overall issues of regional imbalances as well as with a review of the economic policies undertaken to reduce regional disparities in the country. It will also attempt to throw some ideas, preliminary as they may be, as to how this problem could be approached in the kind of planning framework that exists in India. The analysis of subjects such as balanced versus unbalanced regional growth, concentration versus dispersal of new investments or the geography of resource endowments with a view to determine the possible rates of growth among various regions, though clearly relevant to the discussion,has not been dealt with as part of this paper.

II

The crucial observation made by Asok Mitra in a very recent article on 'Aspects of Levels of Development: An Assessment'[2] should perhaps serve as the starting point for a discussion of the economic policies designed to correct regional imbalances. The observation reads ---"the tentative picture that emerges is one of widening of the distances on the road to development among certain States and within the States among certain districts. The decade of 1961-71 seems to have accentuated regional differences. Although there are signs of considerable activity, backward areas seem to have gone still more backward by comparison". While this article has gone into some length in explaining the regional differences by political zones, it is useful to analyse the pattern of relationship between certain individual indicators and the per capita incomes obtaining in different States. Table 1 below gives data on selected Census indicators for those States whose per capita incomes are lower than the national average.

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2. Mitra, Asok, 'Aspects of Levels of Development: An Assessment", Yojna, Vol. XVI No. 2, February 6, 1972.

TABLE 1

1971 Census Data on Urbanization, Literacy and Working Force.

States	Per capita income average 1962-65.	Percentage of urban to total population.	Percentage of literates to total population. Total	Percentage of literates to total population. Females	Percentage of workers to total population
Bihar	265	10.04	19.79	8.49	31.96
Kerala	341	16.28	60.16	53.90	28.91
Madhya Pradesh	325	16.26	22.12	10.84	37.30
Orissa	306	8.27	26.12	13.75	31.64
Rajasthan	314	17.61	18.79	8.26	32.22
Uttar Pradesh	306	14.00	21.64	10.18	32.16
Average: India	372	19.87	29.34	18.44	33.54

It will be evident from the above set of data that there is a positive correlation between per capita incomes and (a) the proportion of population living in urban areas, (b) literacy and (c) percentage of working force in the total population. Barring two exceptions, that is, a higher literacy rate in Kerala and a higher percentag of working force in Madhya Pradesh relative to All-India averages, other States with per capita incomes lower than the national average have lower rates of literacy, lower working force and low rates of urbanization. Between 1961-71 there does not seem to have been any change in the order of correlation between these factors. Asok Mitra,

for instance, has stated in the paper cited above that the coefficient of correlation (in respect of the pooled values of 8 indicators for which comparable 1971 Census data have become available) between the two rankings of the districts of India works out at +0.8687 which indicates a high positive relationship between 1961 and 1971.

With a totally different set of data, the Mid-Term Appraisal of the Fourth Five-Year Plan has also come to the same conclusion that despite the various measures employed by the Centre and States in redressing regional imbalances there is little change in the situation. It must be recalled at this stage that the reduction of regional imbalances has been one of the principal aims of planning in India though conscious efforts directed to this problem were for the first time initiated in the Fourth Five Year Plan. At the time of formulating the Fourth Five Year Plan when the widening disparities were causing anxiety to the governments on social and political grounds, two specific actions of far reaching significance were taken by the Central Government. The important of the two, which also signalled a major departure in the aid-relationship between the Centre and States was to set aside, after meeting the full budgetary requirements of the border and special problem States, 10 per cent of the total Central assistance for those States whose per

capita income was below the national average. It was expected that such a measure would help the backward States and the inter-State differences would, as a result, be narrowed down. The second measure was liberalisation of commercial credit through the nationalised banks and other financing institutions for the backward areas of the country. The third measure, though not unique to the Fourth Five Year Plan period, to locate large investment projects in the backward States was continued from the earlier plans though the order of investment in the large projects itself was substantially reduced during this period.

Commenting on each one of these measures, the Mid-term Plan Appraisal has brought out the following points:

(i) No effective link has yet been possible to provide between the levels of development and sectoral requirements of the States and the criteria of allocation of central assistance. Even under the revised formula which sets aside 10% of Central assistance for States with per capita income less than the national average, per capita Central assistance to Bihar, Madhya Pradesh and Uttar Pradesh, which are the three most backward States, remains below the average Central assistance to all States.

(ii) Only a few entrepreneurs from the backward

areas have approached the financing institutions for taking advantage of liberalized finance, lower interest rates and longer amortization period.

(iii) Only six States have earmarked separate outlays for the development of backward and special problem areas.

A little elaboration of each of these conclusions with supporting data seems to be in order. Table 2 below gives the per capita outlay and Central assistance between 1951-69 and for the Fourth Five Year Plan.

TABLE 2

PER CAPITA OUTLAY AND CENTRAL ASSISTANCE.

States	Per capita income average 1962-65.	1951-69 per capita		Fourth Plan Per Capita	
		Outlay	Central assistance.	Outlay	Central assistance.
Bihar	265	171	107	89	57
Kerala	341	254	155	117	80
Madhya Pradesh	325	210	155	93	62
Orissa	306	291	203	99	72
Rajasthan	314	245	190	111	81
Uttar Pradesh	306	182	106	103	56
Andhra Pradesh	386	233	144	94	54
Gujarat	462	326	126	165	57
Haryana	445*	90	50	214	75
Maharashtra	478	280	97	174	47
Mysore	373	277	156	116	57
Punjab	492	407	343	191	66
Tamil Nadu	400	253	128	129	50
West Bengal	465	220	130	69	48
Assam	393	249	189	161	134
Jammu & Kashmir	302	434	405	386	357
Nagaland	-**	678	700	903	790
Average: India	372	242	141	119	63

*From 1966-67 only. **From Third Plan only.

It is observed from the Table that in the first 18 years of planning covering the three Five-Year Plans and the interregnum period, the highest per capita Central assistance was given to Punjab which incidentally, among all States, had the highest per capita income. However, this was an exception rather than the rule as in other States with high per capita incomes such as Gujarat (39%), Maharashtra (34.7%) and Tamil Nadu (50.6%) the percentage of Central assistance to total outlay was much lower than the average for the country which stood at 58.3%. The per capita Central assistance to these States was also substantially below the national average. On the other hand, among the relatively backward States Bihar and Uttar Pradesh did not get a favourable share of Central assistance, their per capita share being Rs. 107 and Rs. 106 as against the national average of Rs. 141. Other States, however, received a more than proportionate share of Central assistance.

The revised formula of Central assistance in the Fourth Five Year Plan which favoured the backward States in the allocation of assistance did not change the position at all as Bihar, Madhya Pradesh and Uttar Pradesh continued to be in an unfavourable position vis-a-vis the country as a whole in terms of per capita assistance, that being Rs. 57, Rs. 62 and Rs. 56 for these States respectively as against Rs. 63 for the country as a whole. Among the

relatively more advanced States (per capita incomes higher than the national average income) Punjab still got higher than average per capita central assistance, though it was on a very much reduced scale. The main point that emerges from this analysis is that the revised formula of Central assistance could not tilt the balance in favour of backward States as was perhaps intended. In fact, the advantage that accrued to backward States by virtue of 10% Central assistance earmarked for them was offset by allocating 10% of the assistance to those States which ranked higher on the basis of resource mobilisation or tax efforts. Apparently, the bulk of the assistance on account of tax efforts was claimed by the relatively progressive States. Another point that comes out of these figures is that even though the backward States had been, from the very beginning, getting a somewhat better share of Central assistance excepting Bihar and Uttar Pradesh, the gap in per capita incomes of the States has not been bridged in any way.

While the above figures present one side of the balance-sheet the other side, that is, the capacity of the States to absorb the outlays provided in the plans should really be revealing to the policy-makers. The provisional figures of the utilization of outlays in the first three years of the Fourth Five Year Plan show that in four of the six backward States the percentage utilization of the

outlays provided has been less than the overall utilisation factor which itself has been short of the expected target of three-fifths of the outlays. The same pattern is observed when we look into the advances and loans given by the financing institutions to the various States. Some selected data supporting the above pattern are given in Table 3.

TABLE 3

PERFORMANCE OF FINANCIAL INSTITUTIONS

States	Percentage to total		
	Loans drawn from A.R.C. upto June'70	Assistance disbursed by the IDBI from July 1964 to June'70	Assistance sanctioned by IFC upto June 1970.
Bihar	1.3	2.7	5.2
Kerala	0.9	1.8	3.4
Madhya Pradesh	1.4	2.5	2.6
Orissa	0.4	0.5	2.5
Rajasthan	1.4	3.2	4.5
Uttar Pradesh	6.5	4.3	7.3
Andhra Pradesh	24.0	6.3	7.1
Gujarat	5.7	12.6	6.6
Maharashtra	9.1	34.9	20.0
Punjab	22.1	0.5	2.0

Source: Institutional Finance - A Documentation. Planning Department, Uttar Pradesh, Nov.,1971.

It will be seen from the above table that of the total loans drawn from the Agricultural Refinance Corporation upto June 1970, the share of the six backward States (per capita income less than the national average) was only 11.9% compared to Punjab alone claiming 22.1% of the total loans given by the ARC. The share of Andhra Pradesh

in the total loans was reported to be 24% of the total. Similarly, of the total assistance disbursed by the IDBI from July 1964 to June 1970, the six backward States claimed a bare 13.3% while the share of Maharashtra was as high as 34.9%. Gujarat's share in this assistance was 12.6% of the total disbursed assistance. The performance of the Industrial Finance Corporation in the backward areas was slightly better than the records of the ARC or IDBI in which case, the same six States were provided assistance to the tune of 25.5% of the total as against Maharashtra claiming one-fifth of the assistance provided by IFC. These figures again lead us to the same circular kind of reasoning whether the low absorptive capacity of the backward States is the cause of low levels of investments or the result thereof. But the fact remains that neither the backward States took advantage of the concessional finance placed at their disposal nor were they able to spend whatever was provided for in the Plans.

The result of yet another central measure of locating large investment projects in the backward States, which was started in the earlier plan periods, has not paid off in any significant way in improving their economics. While approximately 77% of such investments have gone to the relatively backward States during the first three Plans there is little evidence that this investment has led to any noticeable regional development

of the backward areas where these projects were located. In fact the spread effects of the steel industry in the backward areas of Bihar, Madhya Pradesh and Orissa have been marginal: indeed, whatever ancillary development could have taken place in those areas was nullified by a counter-policy of steel price equalization throughout the country.

In correcting intra-State imbalances the Centre has played at best an advisory role. The Planning Commission have been stressing upon the States to prepare integrated plans for the backward areas so that their problems, potentials and priorities could be identified and investments in the right kind of projects could be made in those areas. The contention of the Planning Commission has been that once the projects and programmes for the backward areas are systematically determined, liberalized credit from the financing institutions would be able to meet a substantial portion of the financial requirements from the backward areas. The States, however, have not taken enthusiastically the work of preparing plans for backward areas.

The efforts of the States in redressing the imbalances within their own jurisdictions have been grossly inadequate to confront this complex problem. A review of the States' Five Year Plans will show that the States have not given District-wise allocation of their

outlays with the result that it is not possible to know, in ex-ante sense, whether the backward districts are getting on a per capita basis any larger share of investments than the relatively more developed districts. In the case of one or two States where such estimates are available it would appear that the per capita investments in the backward districts are no more than their normal share. In Andhra Pradesh, where a regional approach to development has been adopted only 10% of the total State outlays has been earmarked to be distributed in the proportion of 5:3:2 between the three regions in accordance with their levels of development. Remaining 90% has been distributed according to population. Similarly in Uttar Pradesh where five clear-cut regions have been identified the share of the backward regions does not compare any more favourably with the more prosperous regions excepting in case of special problem regions of the hill districts.

III

The real shortcoming of the present efforts, whose record as we have seen is anything but noticeable, is that the solution to this rather complex issue was conceived almost wholly in financial terms. As has been amply demonstrated in the preceding section, the core of the various measures employed in the country since the beginning of the First Plan and intensified during the Fourth Five

Year Plan has been the provision of extra assistance to the relatively backward States, concessional finance from the financing institutions and the location of heavy investment projects in the backward areas. Facts have clearly showed that these measures have hardly been able to correct imbalances between regions. The hypothesis of what is proposed below is that the financial approach to dealing with the problems of disparities is, at best, partial if not shortsighted and, by itself, incapable of closing the gap between the growing regions and lagging regions. The ideas put forward below are, I repeat, in the nature of hypotheses but are submitted for the consideration and fantasy of the Seminar.

We need a planning approach for tackling the problem of regional disparities.

The central idea of the planning approach is that there must be a clear enunciation in the first instance, of what is being "aimed" at in the oft-repeated objective of correction of regional imbalances. In other words, unless it is clearly stated while translating the objective in operational terms, that by such a year, the per capita gap between regions will be closed down or narrowed within a "tolerance limit", whatever order of financial measures that we might take they will remain unrelated and irrelevant to the objective setforth in the plans. To substantiate this point, atleast three alternative aims in regard to

the reduction of regional disparities could be pursued. These can be:

(a) Per capita income gap between districts/regions may be redressed within a plus or minus factor of 10% or any other agreed factor in a period of 20 years;

(b) Per capita income gap between districts/regions may remain the same over this period; and

(c) Per capita income gap may be allowed to increase over this period.

Each of these alternatives are perfectly justifiable targets and has different planning and financial implications. For instance, if (a) is an agreed policy decision then it is obvious that the per capita income of these regions will have to grow much faster than of the relatively advanced regions. It would mean a heavier doze of investment compared to what may be required under alternative (b) or (c). Alternative (c) under which the per capita income gap may be allowed to increase is fully justifiable if the objective is to maximize the growth rate without any concern for its distributive aspects. The purpose of this example is not to recommend any one of the aims but to stress the point that it is absolutely essential that the broad target or aim to be accomplished is stated clearly and in a forthright manner in the plans.

The planning approach means that the backward or lagging regions should be identified and understood not

in any static sense but in terms of their capabilities and potentialities of development. The underlying feature here is that the backwardness of a region is essentially a function of what the region is capable of producing in a reasonable time span of 15-20 years and not merely what its relative position in per capita income terms may be as of any point of time. The main advantage of assessing the backwardness in terms of potentialities and not merely in terms of existing levels of development is that separate strategies for (a) backward areas having a promising potential base and (b) backward areas which are disadvantaged in matters of resource endowment can be formulated. This seems very pertinent that the backward areas are just not clubbed into one group but stratified in terms of their potentialities of development.

The planning approach implies preparation of integrated plans of the backward regions. The main thrust of this step is that before the allocations of investments for various sectors are spatially distributed by the State in the regions or districts it is absolutely essential that the needs, potentials and priorities of the regions and districts are systematically identified so that investments could be made in the most appropriate sectors where alone they can hope to become efficient. This has far-reaching implications for the content of the State Plans but if the problem of regional imbalances has to be attacked with

any degree of seriousness then it is imperative that spatial break-up of the investments is made with due regard to the potentials as well as the backwardness of the area.

We need reorientation of financial measures to attack the problem of regional disparities.

The primary justification for reorienting the financial measures stems from the inadequacy of (i) the criterion of central assistance to meet the requirements of the backward States/areas and (ii) the generic character of the liberalised credit available from the financing agencies. As far as central assistance is concerned, the main point to be considered is whether it is possible to provide central assistance to States in such a way that would ensure the accomplishment of national objectives and priorities. In other words, if the national objective is to correct the regional imbalances then can the central assistance be linked with the programmes for the development of the relatively backward regions. It must, however, be appreciated that the correction of regional imbalances is only one of the several high priority sectors and the reorientation of central assistance must take account of inter-se priorities of the other principal aims as well.

The second point that requires consideration is whether liberalised credit can become more liberal and perhaps selective. Today it has fallen into the trap of

a generic instrument for attracting entrepreneurship into the backward areas. Already about 65% of the total districts of the country have been declared industrially backward so as to become eligible for concessional finance. Perhaps it would be necessary to look into the claims of some academicians that there is a threshold point below which the entrepreneurs will not be attracted to the backward areas.

Let a line from the Mid-term Appraisal of the Fourth Five Year Plan conclude the stray thoughts put in this paper.

"The Fourth Five Year Plan recognizes the problem of inter-regional and inter-State imbalances as highly complex and as one that requires, in addition to specific measures, multi-level coordinated efforts at Central, State and District levels".

It is this multi-level planning approach which might bring about a more lasting solution to the problem of regional disparities.

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Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(With special reference to Industry)
March 3 & 4, 1972

"REGIONAL IMBALANCES: AN APPRECIATION OF ITS SIGNIFICANCES"

By

C.S. Chandrasekhara

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
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Regional Imbalances: An appreciation of its significances

By

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Additional Chief Planner
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Meaning of Imbalances:

A correct appreciation of what 'Regional Imbalances' imply is an important primary step before one examines the nature, the effect and the creation of such imbalances. Imbalance implies a difference in conditions leading to the disturbances in an existing situation. Imbalance can be both natural as well as man-made. Differences in natural endowments of one area compared with another may lead to a nature-created imbalance; such differences may be accentuated by man by creating differential investments in development programmes in the normal process for planning for such development. Regional imbalances can be inter-regional as well as intra-regional; inter-regional balances are easily recognised in terms of degree of development i.e., backward areas and developed areas; the backwardness may be total or sectoral; Imbalances within a region can be in terms of unequal growth rates in the major sectors of the economy, causing hardships to selected groups of people or activities.

Regional imbalances are manifest in terms of inequality in income, of living conditions, opportunities for employment and exploitation of resources. The causes of such differences

may be, as mentioned earlier, unequal natural endowments, subsequently worsened by lack of investment and developmental effort. The effect of such imbalances is felt in terms of economic, social and physical change.

Low income means slow rate of growth and lack of employment opportunities and these lead to the migration of the working age population, specially the younger sections to more promising areas, leading to the depletion of the region of its basic asset of a good working force.

Lower living standards, which may mean inadequate educational and health facilities, non-availability of a proper entertainment and cultural base, and hardships caused by poor supplies of consumers goods may once again cause families as a whole to shift from one area to another. This is particularly evidence in regard to the migration of families from rural to urban areas. An important difference between this and the economic differential is that while in the case of economic differential the area loses its woking agepopulation, in the case of lower living standards whole families and generations migrate out of one area carrying with them the cultural heritage and the area is impoverished in that process. A good illustration is provided by Konkan area of Maharashtra, whose working force has migrated to Bombay and Konkan lives on a money-order economy as it

were; in the case of Rayalseema, farmers have moved away from the water-scarcity districts of Rayalaseema to irrigated areas under the Tungabhadra and have prospered there on account of better living conditions. With this the cultural milieu has also shifted.

Differences arising from lack of exploitation of resources have tended to make areas unresponsive to technolcgy and improved methods of living. For instance, the Bastar area although very rich in resources, on account of lack of exploited resources, has remained backward with the tribal population living under primitive agricultural conditions, and the effort made to bring them to adopt settled agriculture and modern agricultural practices has not always produced satisfactory results, because of the serious gaps between the cultural milieu of a developed society and an underdeveloped socieity. The same area however, when iron ore exploitation was started, is adopting itself very quickly to the improved living conditions which the new people coming from outside have adopted and transformation is more rapid although not always healthy or in the right directions.

The differentials in income, employment opportunities, living conditions and exploitation of

resources, are all inter-related and one springs from the other and is also influenced by it. It is difficult to isolate them as cause and effect get involved in a continuous cycle, accentuating the differences or imbalances, more and more.

Effect of Imbalances

The effect of the imbalances whether naturally existing or man-made is to create social and economic pressures which will have an impact on the political structure. Besides the sizeable movement of population which such imbalances create, they lead to large scale dissatisfaction with the development programmes and the resultant build-up of political pressure leads to heavy investments on development, without adequate knowledge or appreciation of the impact which such investments may have. For instance, in a backward district or an area, because of the backwardness investment is proposed on a number of sectoral developments such as agriculture, industry and roads and communications; often it is not ascertained whether the investment so proposed can assure the mecessary responses from the natural and human resources of the area and by doing so can

be considered to have lasting benefits.

A good example of this is the Rayalseema area where a very hard working agricultural population is eking out its living by tremendous effort from tank irrigation. The same effort if directed towards other pursuits may earn for Rayalseema much greater per capita income than what it is derived from its agricultural products. While the tendency is to introduce programmes for agricultural development, irrigation wells, etc. for Rayalseema, which is natural, what actually perhaps would be a better strategy is to mobilise the human effort of Rayalseema towards other more productive areas. This is evident from the fact that Rayalseema will always have a dearth of water because of its location in a rainshadow and it will be more economical to import food into this area from the neighbouring coastal districts where plenty of water resources enable them to grow crops at much less effort per capita. Any amount of investment in the agricultural sector in Rayalseema will not help and may actually lead to a greater imbalances.

A serious effect of imbalance is the loss to the gross national product and therefore the slowness in the rate of growth of the economy of the country as a whole. If all the areas of the country showed growth rates which they are potentially able to show, then the aggregate economic growth for the country will reflect a healthy and prosperous situation. But where there is great deal of retardation in the growth on account of the regional disparities, the economy as a whole suffers. Once again these disparities can be both inter-sectoral as well as area wise. The last two decades have clearly indicated how industrial growth has suffered, if agriculture does not grow side by side and is not able to supply not only raw materials but also create consumer demands. In the South East Resource Region the economy of the region would not grow to the extent anticipated by the large investment put in that area because of the lack of appropriate investment in the agricultural sector. It has also been noticed in many areas that lack of investment in infrastructure for agricultural development in terms of marketing, production of tools, service functions and communications, has retarded the agricultural growth. Thus, the lack of balance between the sectors have contributed to the accentuation of regional backwardness in a number of cases.

Correction of Imbalances

The correction of imbalances would have two objectives in view, Viz., to set right the differentials that are contributing towards the existing imbalances and to create new differentials so as to make it possible for backward areas to catch up with the more developed areas within the country. The first objective i.e., to eliminate the existing imbalances requires to be dealt with at two levels viz., intra-regional as well as the inter-regional-level. At the intra-regional level, it is necessary that all sectoral plans are designed within an overall frame to ensure inter-sectoral balance so that the economy progresses on all fronts simultaneously and in an integrated fashion. Once this is secured and a certain rate of growth is assured, then the question will arise as to whether this rate of growth should be further enhanced, either to catch up with the national average growth rate, or surpass it at a faster pace in order to enable the backward area to catch up with the rest of the country within a foreseeable period. This inter-regional objective calls for external support to promote development as a corrective measure to set right the regional imbalance.

In any attempt to reduce regional imbalances, it is important to recognise that it is not the intention to retard the growth of a rapidly growing area which must continue to grow in the national interest. It is also not possible to have the same growth rate or the same rate of development for all areas; in a dynamic economy certain differentials are essential to promote grwoth itself; thus what is aimed at is not a static equilibrium but a dynamic equilibrium where the extent of disequilibrium aids development forces and does not retard it.

However, it is important that a basic datum is established regarding regional economic growth which will apply to all areas and it is this datum that has to be reached first by all the areas; above this datum whatever differentials exist or are perceived are owing to differences in a natural endowments and not on account of man-made policies and programmes; for instance in a most highly developed country like the United States, the growth rate of the economy in the several states are not comparable to those on the eastern sea-broad; neither the growth of Los Angels can be compared to that of a midwest town, like Urbana or Cincinnati. Yet the apparent absence

of any sense of regional imbalance is on account of the achievement by all the areas of the minimum or datum level in regard to per capita income - living standards - exploitation of resources and opportunities for employment. Where differentials have occurred these have immediately set in motion migratory tendencies not only for people but also for entrepreneurship. Thus in discussing the correction of regional imbalances, one has to have in view a datum level beyond which imbalances should be considered as healthy and competitive forces leading to maximisation of production and benefits to the nation.

SEMINAR ON
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REGIONAL IMBALANCES
and
PUBLIC INVESTMENT IN INDIA 1860 - 1947

by
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Though the overall development potential of any economy or its region is largely determined by the natural endowments, the pace and intensity of development would, to a great extent, depend on the balanced utilisation of resources through a co-ordinated development of overhead facilities and directly productive activities. Under the capitalist path of development, especially in the developing countries, the Government is assigned the task of developing the economic infrastruetures as a necessary pre-requisite for stimulating private entrepreneurial activities towards commercial and industrial growth. Though, in the initial stages, the British Government in India was primarily concerned with its own strategic and commercial interests, public investment in India in the British period largely determined the locus and course of economic development until recently. The purpose of this paper, therefore, is to trace the direction and regional distribution of public investment in the economic overheads and outline its broad impact on the various regions focusing particular attention on the Punjab which was the receipent

of a balanced package of public investment in railways and irrigators apart from roads before Independence.

Direction of Public Investment

A province-wise breakdown of public investment in economic overheads is somewhat difficult owing to the fact that railways which is the major component of such investment run through a number of provinces. Nevertheless, in the case of irrigation, roads and power such a breakdown would enable us to observe the regional breakup and the shifts in their distribution over the period under study.

Pattern of Investment in Irrigation

A province-wise breakdown of the gross investment in irrigation is given in Table I. As can be seen from the Table, the gross amount invested in irrigation in the period under study amounted to about Rs. 3.2 million. Of this, nearly one third had gone into Punjab. Bombay and Sind together have claimed about 20 percent. United Provinces and Madras have got about 16 percent and 17 percent respectively. The rest have gone to Bengal, Bihar, C.P. and Berar, Burma and so on. Taking the entire period, Punjab and U.P. together have absorbed about half of the gross public investment in irrigation undertaken in British India.

U.P. and Punjab accounted for nearly a quarter each of the Rs. 558 million of gross public investment in irrigation undertaken during 1860-1898. Lower Ganges and Agra Canals were the most important productive works in U.P. But Punjab was the most fortunate province to get a relatively larger dosage of

TABLE I

PROVINCE-WISE DISTRIBUTION OF CROSS PUBLIC INVESTMENT IN IRRIGATION*
(at current prices)

(1)	Madras Amount Rs. million (2)	% (3)	Bombay & Sind Amount Rs. million (4)	% (5)	United Provinces Amount Rs. million (6)	% (7)	Punjab Amount Rs. million (8)	% (9)	Others Amount Rs. million (10)	% (11)	Total Amount Rs. million (12)	% (13)
1860-61 to 1897-98	110	19.7	50	9.0	135	24.2	135	24.2	128	22.9	558	100
1898-99 to 1918-19	119	18.0	96	14.4	58	8.7	315	47.0	81	11.9	669	100
1919-20 to 1946-47	284	14.8	514	26.1	360	18.3	590	30.0	220	10.8	1968	100
	513	16.1	660	20.7	553	17.3	1040	32.6	429	13.3	3195	100

* Distribution has been possible with the help of data available from Statistical Abstracts Relating to British India and Commercial Statistical Appendices attached to Financial Statements of earlier years.

canal irrigation facilities created during the 19th century. As the focal points of colonisation, the Lower Sohag and Para Canal projects from the Sutlej, the Sidhari Canal, the Lower Chenab Canal and its further extensions conferred enormous benefits on the canal colonies and adjoining areas.

The share of Punjab in irrigation facilities shot up during 1898-1919 accounting for as much as 47 percent of the gross investment of nearly 670 million. Apart from the completion of the Lower Chenab extensions, Lower Jhelum, Upper Chenab and Lower Bari Doal were the new systems developed during this period. In terms of its share in the total outlay and the area covered by irrigation facilities the first two decades may be regarded as the golden age of irrigation in the Punjab. The upsurge of irrigation activities in Punjab continued even after the First World War though in a subdued manner. In absolute terms, the volume of investment in irrigation continued to increase from period to period though the relative share of Punjab was reduced to 30 percent in the post-war period. The programme of canal colonies was slowly coming to an end after the First World War except for the Upper Jhelum Canal Colony (1916-21) the Lower Bari Doab Canal Colony (1914-22) the Niliban Colony (1922-30) and the Haveli Project Colony which was completed around 1939. Besides, the Sutlej Valley Project started in 1921-22 involved some investment. On the other hand, Chenab Inundation Canal completed during the same period did not necessitate much investment.

Though U.P. was even with Punjab as far as irrigation investment during the 19th century, it received a serious set

back both in absolute and relative terms in the following period. The Eastern Jamna and Ganges Canals were the two prominent works undertaken during this period. However, its share improved in the following period though the ground lost could not be fully recovered. Amongst other facilities, the Sarda Canal claimed a substanitial part of the investment incurred in U.P. in this period.

It is interesting to note that the share of Madras which amounted to nearly one-fifth of the gross investment in irrigation in the 19th century progressively declined though in absolute terms, it recorded larger amounts in the succesive periods. The Godavari Delta system which was developed earlier under the initiative of Sir Arthur Cotton was further expanded over the 19th century. Besides, the Periyar system and Rushikulya project were also undertaken as part of protective schemes during this period. Work on Godavari system continued in the subsequent period as well. In addition, Krishna irrigation system was initiated in the pre-war period. Mettur dam and the Papanasam works were two major multipurpose schemes in Madras which were begun during the last period under consideration.

Bombay and Sind, which did not figure in prominently in the 19th Century, assumed increasing importance in the subsequent periods. This was particularly so after the First World War. The projects that were undertaken in Bombay and in the Central Provinces were smaller in magnitude and largely 'protective' in character. The Nira Canal of Bombay was one such sheme undertaken in the 19th Century. The most outstanding productive work involving considerable investment was the construction of the Lloyds Barrage (otherwise, Known as

the Sukkur Barrage) along with its canals in the Sind which was undertaken from 1921-22. This was responsible for making the deserts of Sind smile and barren lands bloom.

Regional Distribution of Roads

As in the case of irrigation, public investment in roads and highways can also be broken down province-wise. Such a distribution has, however, some limitations. Firstly, a province-wise distribution of the investment in roads and buildings is not available for all the years in the period. But, the P.W.D. Reorganisation Committee Report of 1918 has given the province-wise breakdown for civil works for 1911-14. We have applied here the average of the ratios for these three years to the entire period upto 1919-20 since when provincial breakdown is available for every year. Secondly, the same proportion is applied in the case of military works where there is every reason to assume that such works were more familiar in the North Western and North Eastern regions whose military importance was relatively greater. Thirdly, the proportion between roads and buildings is assumed to be constant for military works throughout the period under study. Further, the territorial jurisdiction of the various provinces have changed from time to time and consequently suitable adjustments are necessary to bring the data on a comparable basis. For instance, Sind was carved out of old Bombay Presidency in 1934-35. Orissa was created out of parts of Madras Presidency and Bihar. Central Provinces and Berar was a later arrival. North West Frontier Provinces was a post-war creation. Burma was separated from India since 1937-38. Bearing all these

limitations in mind an attempt is made in the following table to distribute the gross public investment in roads between the various provinces.

As can be seen from Table II, there has been no undue skewness in the distribution of gross public investment in roads over the period under study. Nevertheless, some degree of concentration is evident in the three Presidencies which together have claimed more than 40 percent of such investment. This pattern has been particularly prominent before the First World War. The performance of Punjab and Burma have been pretty good. It must be borne in mind that the dominance of the Presidencies was at the expense of certain backward provinces like U.P., Bihar, Orissa and Berar. In Bombay, which has had the largest share among all the provinces, roads played an important role in the opening up of the hinterland around Bombay facilitating the transport of raw cotton from the interior to the city of Bombay and the distribution of manufactured goods imported through the port or produced in the city. In Bombay roads seem to have, on the whole, been supplementing the railways. On the other hand, the development of roads in Burma appears to have been governed more by military and administrative objectives than by commercial considerations.

It is interesting to note that no other province could keep its share consistently large as Bombay. However, the increased share which Bombay could keep in the post-war period was mainly due to the Bombay Development Scheme launched by the Province with the aid of the Government of India. This scheme

TABLE II

PROVINCE-wise DISTRIBUTION OF THE GROSS PUBLIC INVESTMENT IN ROADS (at current prices)

Period (1)	Madras Amount Rs. million (2)	Percentage (3)	Bombay & Sind Amount Rs. million (4)	Percentage (5)	U.P. Amount Rs. million (6)	Percentage (7)	Punjab Amount Rs. million (8)	% (9)	Burma Amount Rs. million (10)	% (11)	Bengal Amount Rs.million (12)	% (13)	Others Amount Rs.million (14)	% (15)	Total Amount Rs.million (16)	% (17)
1860-61 -- 1897-98	114	16.5	120	17.4	96	13.9	92	13.3	55	7.9	114	16.5	100	14.5	691	100
1898-1899-1918-19	103	11.7	152	17.3	61	7.0	103	11.7	132	15.0	124	14.0	204	23.3	879	100
1919-20 -- 1946-47	335	15.0	441	19.8	162	7.5	270	12.1	255	11.4	78	3.5	696	30.7	2237	100
	552	14.5	713	18.7	319	8.4	465	12.2	442	11.6	316	8.3	1000	26.3	3807	100

TABLE III

PROVINCE-WISE DISTRIBUTION OF GROSS PUBLIC INVESTMENT IN IRRIGATION ROADS AND POWER (at current prices)

Period (1)	Madras Amount Rs. million (2)	% (3)	Bombay & Sind Amount Rs. million (4)	% (5)	United Province Amount Rs. million (6)	% (7)	Punjab Amount Rs. million (8)	% (9)	Burma Amount Rs. million (10)	% (11)	Bengal Amount Rs. million (12)	% (13)	Others Amount Rs. million (14)	% (15)	Total Amount Rs. million (16)	% (17)
1860-61 to 1897-98	224	18.0	170	13.6	114	9.1	119	18.5	227	18.2	55	4.4	228	18.2	1249	100
1898-99 to 1918-19	222	14.3	248	16.0	124	8.0	119	7.7	418	27.0	132	8.5	285	18.5	1548	100
1919-20 to 1946-47	715	16.2	955	21.7	78	1.8	522	11.9	961	21.9	255	5.8	918	20.7	4404	100
	1161	16.1	1373	19.1	316	4.4	872	12.1	1606	22.3	442	6.1	1431	19.9	7201	100

accounted for about one-third of the gross investment in roads in this Province during the post-war period. In the case of Punjab, the new settlement in the Canal colonies and the increase in productivity in the irrigated areas necessitated the development of roads to facilitate the transport of surplus produce to the railway centres and to the other parts of the country.

Development of Power

The generation of electricity through hydro-electric projects was non-existent before the First World War. Even in the inter-war period, only Madras and Punjab were showing some interest in the generation of hydro-power. N.W.F.P. entered the field in a small way only during the last decade of the period under study. Out of the gross investment of about Rs.200 million nearly, half was claimed by the Mandi Electricity Project which, to a large extent, compensated for the deficiency in coal in Punjab. In Madras, Hydro projects absorbed nearly Rs. 96 million of the gross investment in power. The generating stations in Mettur and Pykara were the two main projects undertaken by the Province in this period. Hardly two million rupees were invested in Malakand Hydro project in N.W.F.P.

Province-wise Distribution of Investment in Irrigation, Power and roads.

The overall distribution of the consolidated gross investment in irrigation, roads and power over the periods under study is given in the following table. (Table III). Despite the distributions of data referred to earlier, some iteresting conclusion emerge from the pattern of investment from Table III.

Firstly, of all provinces Punjab has accounted for the largest share (more than 22 percent) of the gross investment in irrigation, roads and power put together. Its share has been particularly high during 1898-1919. This record is quite impressive in view of the fact that it was neither a presidency nor an industrialised province. Secondly, there is no uniformity in the relative shares of the three presidencies. The share of Madras has been relatively stable over the periods though it had lost some ground during the first 2 decades of the present century. But Bombay and Sind together have claimed a progressively increasing share of the investment both in absolute and relative terms. On the other hand, Bengal has suffered a progressive decline in its relative share over the periods. Its performance has been particularly low after the First World War. Though an industrialised province it did not rely as much as Bombay on roads as a subsidiary mode of transportation. Instead, its reliance has been more on railways and waterways. Besides, as a province getting a high rainfall and fed with perennial rivers and streams there was hardly any investment in irrigation. Her industries depended more on private generation of thermal power than on hydro power generation in the public sector. It is also interesting to note that in U.P., one of the biggest provinces in British India, the share of investment has not been particularly impressive. Though Western U.P. received some attention as regards the creation of a network of irrigation facilities, its general backwardness and relative slowness in industrial development did not

attract much investment in roads as a means of transportation apart from the railways. Bihar, Orissa Central Provinces and Berar and N.W.F.P. attracted some investment especially in roads and protective irrigation. But all of them put together did not amount to anything more than what had gone into a single province like Punjab.

It should, however, be remembered that railways, which were the most important form of public investment, are excluded from the above analysis. Since the investment figures for the railways are available only on the basis of the different systems of railways operating, a province-wise breakdown is not possible. Nevertheless, it would interesting to study the broad distribution of investment as between the different systems and the shifts in their relative shares. However, in doing this there is/one major difficulty. As outlined in an earlier chapter there were a multiplicity of agencies involved in the investment in railways under various arrangements from time to time such as the Old Guaranteed Companies, New Guaranteed Companies, Protective Lines, Branch Companies and so on though eventually almost all of them were taken over by the Government of India. Besides, there were some major and minor lines built up by the Native States whose total capital at charge amounted to about Rs.10,273.3 million in 1946-47. Such investments by the Native States are excluded

for want of data covering entire period under study. Moreover, since public investment, as defined in this study, does not cover transfer of assets from the private to the public sector (through acquisition) such purchases are not reflected in the data displayed in this paper. They may, however, be important when we are concerned about the regional disparities in the share of economic infra-structure irrespective of whether such investments have taken place in the public or the private sector. It should also be borne in mind that since our study embraces a long period (1960-1947) we have not traced public investment in railways in terms of each company though the aggregate amount relating to all the companies in the public sector as a whole is very reliable. In the absence of company-wise data, gross public investment in the railways is distributed between the various systems in proportion to their respective shares in the total capital-at-charge at two points of time viz. 1918-19 for the period 1998-1919 and 1946-47 for the period 1919-1947. Since the capital-at-charge of each railway comprises of both investment outlay and purchase price, the allocation of gross public investment on the basis of capital-at-charge would somewhat distort the real share of each system.

The share of each system in gross public investment in railways over the period 1860-1947 is shown in Table III. Public

Table IV

Gross Public Investment in Railways

	1860 - 1919 Amount Rs. Million	1860 - 1919 %	1919 - 1947 Amount Rs. Million	1919 - 1947 %	1860 - 1947 Amount Rs. Million	1860 - 1947 %
Bengal Assam*	416.3	10.6	616.7	10.0	1033.0	10.3
East Indian**	725.6	19.4	1332.2	21.6	2057.8	20.6
Bengal and North-Western	129.8	3.6	160.4	2.6	290.2	2.9
Bengal Nagpur	309.3	8.2	585.9	9.5	895.2	9.0
B.B & C.	355.2	9.3	542.7	8.8	897.9	9.0
G.I.P.	534.6	13.4	838.8	13.6	1373.4	13.8
North Western	740.9	19.1	1079.3	17.5	1820.2	18.2
M.S.M.	282.6	7.6	400.9	6.5	683.5	6.8
S.I	164.2	4.4	326.9	5.3	491.1	4.9
Burma	160.4	4.4	283.7	4.6	441.1	4.5
Grand Total	3818.9	100.0	6167.5	100.0	9986.4	100.0

* Assam-Bengal and East Bengal Railways were merged together during the Second World War.

** East Indian includes Oudh - Rohilkund Railways

investment in class II and class II railways, which amounted to Rs. 260 million on the eve of independence, is also merged with the major systems.

It will be seen from Table ~~III~~ IV that the gross public investments in railways amounted to a little less than 10 billion rupees over the period 1860-1947. Of this, the three principal systems, namely the East Indian, the North Western and the G.I.P. Railways together absorbed about Rs.525.4 million or about 52.6 per cent of the gross outlay. In order of magnitude, the East Indian Railway (inculding Oudh-Rohilkhand System which was amalgamated with it since 1925-26) claimed the largest share amounting to Rs.2057.8 million or 20.6 per cent of the total. The North Western and the G.I.P. Systems shared about Rs.1820.2 million and Rs.1373.4 million or about 18.2 and 13.8 per cent respectively. The M.S.M. and the South Indian Railways, the two principal systems in Southern India together accounted for only Rs.1174.6 million or about 11.7 per cent of the total. Investment in railways was, thus, largely concentrated in the hinterland to the posts of Calcutta and Bombay and in the North Western region which was important from the strategic point of view as well as on account of the development of the canal colonies in the Punjab.

We could also see the shifts in the relative importance of the different systems between the two broad periods viz., 1960-1919

and 1919-1947. Amongst the 3 principal systems the relative share of G.I.P. remained more or less the same in the two periods. The East Indian Railway which ran across the coal mining and industrial areas of Bihar and Bengal was the largest single absorbant whose share increased from 19.4 per cent during 1960-1919 to 21.6 per cent during 1919-1947. On the other hand, the North Western which was a close second upto the end of the First World War lost some ground in the subsequent period. The Afghan Wars and the fear of the Russian invasion apart from the needs of colonisation of the Punjab explain the importance of this system. Bengal Assam (a merger of the Assam Bengal and East Bengal systems) were the other important systems, though both of them have had minor set backs after the First World War. The share of the Southern railways remain more or less unchanged between the two periods. The ascendency of East Indian and Bengal Nagpur systems on the one hand and the relative decline in the shares of North Western on the other indicates a relative shift in emphasis from military to commercial lines.[1] It is true that none of the railways could be regarded as purely military lines, though in the early stages strategic considerations were considerably more important than their commercial possibilities. Towards the end of the 19th

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1. As a background we should remember that these basically military lines shared as much as 86.6 per cent of the stock of military capital (public) in India in 1997.98.

century, the Afghan Wars, the Burmese Wars and above all the fear of Russian invasion, referred to earlier, necessitated large scale investment on strategic lines. But even though the Afghan War continued even during the immediate post-war years, the requirements of such security lines diminished to a considerable extent. Similarly, the comparative peace in the eastern frontier and in Burma resulted in a decline of investment in the lines which were primarily of military importance in that area. Further, the increasing importance of Bengal-Nagpur system was accompanied by the exploitation of mineral resources, particularly coal, in the Central Provinces and Berar and other adjoining areas.

Regional Distribution of Public Investment in the Economic Overheads :

In order to analyse the regional distribution of the economic infra-structure facilities, the various provinces and the different systems of railways may roughly be classified under four regions viz., North Western, North Eastern, Central and Southern. Burma can be kept apart in view of its separation from British India after 1936-37. The provinces of Punjab, N.W.F.P., Sind[1] and Baluchistan

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1. Sind was constituted as a separate province only from 1934-35. Till then the provincial budget for Bombay included that of Sind. But since the bulk of the investment in irrigation, since the Twenties was concentrated in Sind, such tagging would distort the picture of regional distribution. To avoid this, the amount of investment attributable to Sind is separated for the whole period on the basis of investments involved in the different projects in Sind and this is added to the North Western region to which the province belongs.

may be regarded as comprising the Northern region. U.P., Bengal, Bihar and Assam constitute the North Eastern region. The Central region include the Central Provinces and Berar and Bombay. The old Madras Province constitutes the Southers region. Similarly, the North Western railway fall under the Northern region, which the East Indian, Bengal Assam and Bengal North Western systems are included in the North Eastern Region. The G.I.P., B.B. & C.I. and Bengal Nagpur are alloted to the Central region which the M.S.M. and South Indian Railways could be regarded as part of the Southern region.

Table IV shows that the gross public investment in economic overheads (such as irrigation and power and roads and railways) amounted to about Rs.17187 million during 1960-1947. Of this, more than Rs.9482 million or more than 55 per cent was concentrated in North Western and North Eastern India.

The North Eastern region absorbed the largest proportion amounting to Rs.5207 million or 30.3 per cent of the gross public investment in economic overheads during the entire period under study. This concentration was mainly due to investment in railways which accounted for about 65 per cent of the total. The East India Railway was the largest single claimant.

The North Western region accounted for about 25 per cent of the gross public investment in economic overheads. Of this, nearly 43 per cent was in railways. Investment in irrigation in the Punjab

Table V

Regional Distribution of Gross Public Investment in Economic Overleads

	North Western Zone		North Eastern Zone		Central Zone		Southern Zone		Burma		Total	
	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%
1860-1919	1755	25.5	2519	36.5	1483	21.5	807	11.7	335	4.8	6899	
1919-1947	2520	24.4	2688	26.2	2976	29.0	1653	16.0	451	4.4	10288	
Grand Total 1860-1947	4275	25.0	5207	30.3	4459	25.8	2460	14.4	786	4.5	17187	

and Sind claimed more than a third. It should also be remembered that the share of the North Western region in the gross public investment in irrigation in India was as high as about 45 per cent, the canal in the Punjab and the Lloyd Barrage in the sind being responsible for such a large share.

The Central region ranked second as far as its share in the public investment in the economic, infra-structure facilities was concerned accounting for nearly 26 per cent of the gross total. The predominant proportion of this (i.e. more than 90 per cent) was claimed by the means of transportation, railways, being the dominant constitutents. The share of roads and railways as a proportion of the gross investment in economic overheads was higher than in any other region. The opening up of the coal mining areas and cotton producing tracts of the C.P. and Berar and Bombay explains why there was so much of concentration of investment in transport and communication. Barring a few protective works there was hardly any large scale irrigation scheme undertaken in this region.

As regards the South, its share was hardly more than 14.5 per cent of the total. To the extent that it includes investment in Orissa before it was constituted as a separate province, the share of the Southern region should be considered even lower than what is indicated by its percentage share as given in the Table.

When analysed by periods, it would be evident that the period before 1920 is marked by relatively larger concentration of public investment in the economic overheads in the North Eastern and North

Western regions which together absorbed about 62 per cent of the share of the gross outlay. On the other hand, the share of the South was even less than 12 per cent. The Central region claimed a little more than 21 per cent.

However, since 1920 the share of the Northern region was reduced to a little over half of the total while the share of the Central region increased to 29 per cent. The shift was also relatively favourable to the South which claimed about 16 per cent of the gross public investment in economic overheads in this period. It must be noted that though small the composition of investment in the South was fairly balanced as between transportation and irrigation. Irrigation was largely restricted in the deltaic regions of Krishna, Godavari and Cauveri. Some hydro-power was also developed on the Cauvery during the inter-war period.

It follows that the concentration of investment in economic overheads in North Eastern and North Western India was greater before 1920 than in the subsequent period. The shift in the direction of investments relatively in favour of the Central and Southern regions indicates not only the tendency towards a more even regional distribution of investment but also increasing emphasis laid on the provision of economic overhead for the development of areas which began to reveal great potentiality for commercial and industrial activity.

Impact of Public Investment on Indian Agriculture

Over the period under study there was, in the first place, more than a quadrupling of the area irrigated by Government owned irrigation facilities which rose to about 40 million acres in undivided India on the eve of Independence which was hardly about 15 per cent of the net area shown. A major part of the Government canals was handed over to Pakistan after partition. In any case, the investment in irrigation that took place during the period was not large enough to influence significantly either the aggregate or the per capita agricultural output in the economy. In fact, the rate of increase in agricultural output in India since the last decade of the 19th century, appears to have been lower than the rate of growth of population and consequently there was a decline in per capita agricultural output.[1]

Nevertheless, there was, over this period a marked tendency towards commercialisation of agriculture. Whereas, the index of food production has registered a decline from 100 (Base: 1893-94 to 1895-96) to about 93 during 1936-37 to 1945-46, the corresponding index for non-food output seems to have increased to 185 over the same period.[2] This tendency towards commercialisation is also reflected in the growth of exports which seems to have increased from Rs.1080 million during 1892-93 1995-97 to about Rs.3420 million during 1924-25 to 1928-29.[3] However Indian exports declined sharply during the Great Deparession from which it did not fully recover until the Second World War. Food and raw materials accounted for a substantial part of the export.

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1. Blynn. George, "The Agricultural Crops of India 1893-94 to 1945-46: A statistical study of Output and Trends" (unpublished M.S., South Asia Regional Studies Departrent, University of Pennsylania, 1951) Ph 117-121.
2. Blynn, George 1 bid.
3. Durga Prashad "Some Aspects of India's Foreign Trade".

The development of tea, coffee and rubber plantations is another indicator of the growing tendency towards specialisation of agricultural production meant for export. Tea which was by far the most important of all the plantation industries increased its output from about 0.2 million lbs. to about 430 million pounds by 1937-38. It should be noted that over 80 per cent of the area under plantations in 1929 was, concentrated in Assam and Bengal[1] and that their development owed much to the introduction of the Assam, Bengal and East Bengal Railways (which were later merged as Bengal Assam system) which facilitated the transport of food and other requirements to the tea gardens and the carrying of the tea to the ports like Calcutta and Chittagong from where they were exported to the European markets.

Effects on Industrial Development:

Commercialisation of agriculture encouraged, in turn, the establishment of a number of processing as well as manufacturing industries. Thus the growth of the ginning and pressing mills of the Punjab, Central Provinces and Madras, the flour and oil mills of the Punjab and U.P., the rice mills of Burma, the tanneries and other industries of

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1. Buchaman, D.H., 'The Development of Capitalists Enterprise in India', p. 56.

Kanpur, Lucknow and Madras are all attributable to a great extent, to the commercialisation of agriculture and to the development of railways and other means of transport and communication in other regions.

Another group of industries which received stimulus from the development of transport and communications were mining industries of which coal, gold and petroleum and manganese were the most important. Coal mining was, by far, the most important mineral industry, though till the turn of the present centuny, gold extracted from the Kolar, Gold Field, alone exceeded the total production of coal in value.[1]

Of all the mineral extracting industries it was oils, coal, mining which made the greatest and the most uninterrupted progress due to the development of the means of transport and communications. Earlier, the prohibition costs of transport had deprived the coal industry of its Indian markets. But the development of the railways gave an enormous impetus to the industry not only by itself consuming nearly one-third of the total production of coal in India but also by enabling other Indian industries to give up foreign coal in favour of the indigenous coal. This was true also in the case of

1. Gadgil, D.R., 'Industrial Evolution of India in Recent Times', p. 80.

coal fields in the Central region, where the exploitation of the newly discovered coal deposits would not have been possible except for the investment in railways in this region. While the transport facilities provided by the railway, and the bulk purchase of coal made by them stimulated the opening up of the coal fields in the Eastern and Central regions, the development of railways was, in turn, stimulated by the increased internal supplies of cheap coal and by the profits from the increased traffic on account of the transport of coal to different places.

The availability of industrial raw materials and power (coal and oil) encouraged the growth also of a few manufacturing industries of which cotton and jute were the most important. In the case of cotton mills number of spindles and looms increased from 1.4 million and 13000 respectively in 1879-80 to about 9.4 million and 195000 respectively in 1937-38. Similarly, the number of spindles and looms in the jute mills increased from 0.7 million and 5000 respectively in 1879-80 to 1.3 million and 67000 respectively in 1937-38. The growth of the jute industry along the river Hoogly* could be attributed roughly to the construction of the Assam Bengal and East Bengal Railways

which facilitated the assembly of raw jute from the rural districts of E st Bengal. Particularly, the East Bengal Railways strengthened the competitive power of the jute industries in Calcutta against Dundee by reducing the cost of transport of its raw materials. In the same way, the G.I.P. and B.B.& C.I. systems gave a powerful impetus to the growth of the cotton mills in Bombay and Ahmedabad by carrying raw cotton from the cotton tracts of the Deccan and of the Central India and by distributing the textile manufacturers to the interior. At the same time, the increasing traffic arising from the development of cotton textile industry argumented the receipts and improved the profitability of these railways.

Apart from cotton and jute, there springs up also a few other manufacturing industries like sugar, cement, paper, etc., which made some headway under the discriminating protection extended to them. Little progress was, however, registered during this period in the establishment of capital goods industries. Except the Tata Iron and Steel Company (which started producing iron from 1911, and steel from 1913) and a few other smaller companies in Bengal and Mysore and some engineering workshops scattered over a number of important industrial centres, there was hardly any other capital goods

industry developed in India during this period. Thus, while the commercialisation of the economy helped the growth of some processing and manufacturing industries it did not lead to the third and the most important stage of industrial development, namely, the manufacture of machinery and other capital equipment.

In general, left to private initiative, industrial development in the earlier stages is usually concentrated in a few nodule points conforming to certain basic locational factors. In India, however, the distribution of the industrial development that took place did not always reflect the locational advantages and disadvantages. This was partly the result of the rates policies adopted by the Indian railways and partly due to the uneven regional distribution of the investments in the basic overheads like railways and irrigation.

The rates structure was so framed as to encourage long-lead against short-lead traffic (which discouraged, to some extent, the growth of industries at either the sources of raw materials or near the markets) and traffic from the interior to the ports and from ports to the interior as against traffic within the interior. This weakened the pull

of the basic locational factors and resulted in a conglomerations of industries in a few centres, like Bombay, Calcutta and Ahmedabad. In course of time, the competition between different railway systems, through their rates adjustments did lead to the emergence of new centres of trade and industries in the country such as Delhi, Agra, Kanpur and Nagpur. The breaks of journey from one system to another (particularly at the gunctions) involving additional loading and unloading charges reinforced this tendency of dispersing industries, over the different transport points. The forces working in the direction of dispersal of industries were, however, not strong enough to counteract the tendencies towards concentration. In consequence, the industrial development promoted during this period was confined to limited areas of the country.

Regional Dispersal of Public Investments and its Effects:

The uneven dispersal of development during this period is partly attributable to the uneven distribution of investment in railway and irrigation as between different regions. This, in turn, was partly because there was no overall planning of public investment during this period. The decision regarding investments in one line or in one region

were taken more or less independently of decisions regarding investments in other lines and in other regions. This was particularly same in the initial stages of railway development when immediate commercial advantage and profitability were the two dominant considerations governing the flow of investment into railways. Therefore, the cumulative process of development initiated by the introduction of railways in certain areas tended to perpetuate the initial imbalance in the distribution of investment between the different regions even when these railways were taken over by the Government.

Upto the First World War, the projects earned by the East Indian, G.I.P. and B.B.& C.I. systems were relatively larger than that of the other systems. Though there was no arrangement for directly ploughing the profits back into the respective systems, they received priority in the allocation of the investment by virtue of their profitability.

In the inter-war period, due to the decline in the external demand for Indian weat, the net earnings and consequently the profitability of the North Western system (which had received special attention from the beginning) tended to decline. Other systems (like M.S.M., S.I., G.I.P. and Bengal

Nagpur systems) enjoying relatively greater profits received greater attention as a result. But this shift in emphasis was not such as to nutralise the advantages arising from the distribution of the investment in the earlier stages.

The same was true of investment in irrigation when the large revenues accruing to the state from projects already completed became responsible for attracting more and more investment into irrigation in the regions concerned. The position remained basically the same even after 1920 when irrigation became an entirely provincial subject.

As seen earlier, the bulk of the public investment in railways was concentrated in the North Eastern and North Western region while the larger part of the investment in irrigation was concentrated in the North West (especially Punjab).

The dominant share of the North Eastern region in the gross public investment in economic overheads over the period is almost exclusively on account of the railways. Since this area was also endowed with some of the economically exploitable mineral resources and other industrial raw materials besides having favourable geographic and climatic conditions for the development of tea gardens, this area reached a relatively higher degree of industrialisation

during the British period. It must, however, be remembered that the industrialisation of the Eastern region was the joint result of public investment and of foreign capital, the former providing the basic economic overheads facilities in this region and the latter providing the supplementary investments required to realise the external economies arising from public investment. To the extent that foreign capital and enterprise was dominant in the plantations, jute and mining industries in this region, the benefit arising from public investment in railways were partly reaped by foreigners.

In the case of North Western region also, particularly in the Punjab, whatever development has taken place is largely attributable to public investment in irrigation, railways and roads. Till the last quarter of the 19th century, the major part of the Punjab was barren and was devoid of any noticeable economic development. But subsequently, this region has received a relatively longer dose of public investment. Since there is no evidence of any large scale involvement of foreign capital in Punjab, almost the entire development could be traced to the public investment and the supplementary private investments from within.

The Case of Punjab:

Inclusive of investment in North Western Railways Punjab appears to have absorbed about Rs. 2.7 billion or about 14 per cent of the gross investment outlay in economic overheads during the period under study. In terms of per capital share Punjab appears to have claimed nearly as much as twice that of the corresponding average ratio for British India. As seen earlier its share in investment in irrigation was even greater. This, however, resulted in a more than proportionate increase in the area irrigated.

For instance, the canal irrigated area in the Punjab increased from 2.5 million acres in 1890-91 to about 12.5 million acres in 1937-38 - a five-fold increase over 50 years. This raised the ratio of canal irrigated to the total cropped area from about 12 per cent to nearly 45 per cent over these years.

The reclamation of highly productive virgin soil in the canal colonies of the Punjab brought about a tremendous increase in the direct and indirect returns from agriculture accruing to the state as well as to private individuals. While the net private return[1] (by way of increased land revenue) accruing to the state varied from 6 to 10 per cent of the

1. Net return is measured as the excess of gross receipts over gross expenses before deducting the interest payments on irrigation capital (i.e., total capital-at-charge)

total capital-at-charge[1] in the case of productive irrigation works in the whole of British India, the corresponding revenue arising from the productive irrigation works in the Punjab consituted about 10 to 20 per cent of the total capital-at-charge. When, after 1920-21, irrigation became a wholly provincial subject, it became an important source of revenue constituting about 40 per cent of the current public revenue of the Government of the Punjab[2]. As a result, the output of both food and commercial crops in Punjab had a better showing than that of the all-India average. Agricultural output per head was supposed to have increased by about 36 per cent from 1886-87 to 1908-09[3]. This trend continued through the twenties as well, the increase being for more pronounced in the case of non-food crops. Whereas the gross output of wheat in British India increased by about 50 per cent over the period under study, the corresponding increase in the Punjab was more than 66 per cent over the period 1898-1937. As for productivity per acre, we find an increase of about 20 per cent in the Punjab over the period while that of British India remained

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1. Total capita-at-charge, is roughly equivalent to the value of the accumulated stock of irrigation assets.
2. The Board of Economic Inquiry, Punjab, Publication No. 52.
3. Wilson, James in his paper "Recent Economic Development in the Punjab", submitted before the Royal Economic Society on February 9, 1910.

more or less stationary throughout the period. In the case of raw cotton, the gross output in British India increased by about 2.5 times over the period while the corresponding increase in the Punjab was as much as 7 times over the initial level. In the same way the output of raw cotton per acre increased by more than 2.5 times while the corresponding increase in the case of British India is relatively unimpressive (less than 30 per cent). The relative increase in the output of raw cotton is indicative of the growing tendency towards commercialisation of agriculture in the Punjab.

Commercialisation of agriculture, in turn, stimulated the growth of trade between the Punjab and other regions in India. There was an impressive increase in the export of raw cotton, grains and pulses and oil seeds from the Punjab to the other regions by rail and road especially before the First World War. For instance, the export of raw cotton increased from 0.4 million cwts. to 4.8 million cwts. over the period 1898-38.

The growth of trade had a two-fold effect on the growth of financial institutions in the Punjab. On the one hand, it created the need for joint-stock banks capable of meeting the short-term financial requirements, of business firms. On the other hand, the large profits accuring from trade and agriculture facilitated the establishment of such banks in the leading commercial centres in and around the canal colonies of the Punjab. There were hardly more than 3 registered joint-stock banks before 1898. But the number increased to 18 by 1929. The paid-up capital of these banks doubled over the decade 1919-29. Besides, there were 4000 money-lenders who were assessed for income-tax in the Punjab in 1928-29 having a total cpaital of Rs. 130 million and who concentrated in the important business centres.[1] However, the growth of banking was very much impeded by the Great Depression.

The growth of trade was also having a favourable effect in the railways. The North Western railway received great stimulus due to the increase in goods traffic accompan-

1. Report of the Provincial Banking Inquiry Committee, Punjab, Statement 6.

ying the growth of trade. The gross receipts of the railway increased from about Rs. 32 million in 1900-01 to about Rs.87 million in 1913-14. Though the decline in the export of wheat and the development of Sind lessened the rate of growth of the volume of traffic in the later twenties and during the Thirties, the gross traffic receipts increased to about Rs.160 million in 1937-38.[2]

The prosperity of agriculture induced by the means of transport and irrigation works enhanced the value of land in the Punjab. On the average the price per acre increased from about Rs.46 in 1898-99 to about Rs.255 in 1938-39; the average price of cultivated land increased from Rs. 83 per acre to nearly Rs. 451 per acre over the same period.[3]

As for the growth of industries in the Punjab, the development is not quite impressive. The number of industries as well as the number of persons employed in them approximately trebled over the period 1908-1938. Almost all these industries belonged to the processing category engaged in the processing of food and raw material and facilitating

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2. Statistical Abstracts of British India (relates only to the Commercial lines).

3. The Board of Economic Enquiry, Punjab, Publication No. 52.

exports. The cotton ginning and pressing industry alone accounted for more than 50 per cent of the total number of factories and nearly 25 per cent of the persons employed in them in 1919. The corresponding percentages for 1937 were nearly 45 and 35 respectively. Though the dislocation in the export trade in the inter-war period and the discriminating protection offered to the cotton textile industry encouraged the establishment of a few spinning and weaving industries, the growth could not be said to have been spectacular. The other industries which registered notable progress were the woollen, engineering, rice, sugar and oil mills.

It would be worthwhile attempting an estimate of the probable amount of capital invested in industries in the Punjab during the period under study. But data is available only from the first decade of the present century.

TABLE VI.

(Rs. Millions)

	1908	1913-14	1919-20	1931-32	1937-38
Paid-up capital of the Joint-stock Companies. 1	N.A.	19	33	40	46
Estimated amount of capital employed in the organised industries. 2	52	50	120	150	230

Allowing for the roughness of the estimate, it would appear that, following from and accompanying the public investment in economic overheads in the Punjab, there was a net addition of about Rs. 180 million to the stock of capital in organised industries in the private sector over the 30 - year period covered in Table VI. This, however, is by no means spectacular especially if we

1. Joint-stock Companies in British India and in the Indian States of Mysore, Baroda, Gwalior, Indore & Travancore.

2. This estimate is based on the estimate of capital employed per unit of labour in specified Indian industries : 1938-39 made by Divatia and Trivedi in 'Industrial Capital in India 1938-39', Table VII, Col. (6). The present estimate for the Punjab is based on the broad assumption that this ratio has remained the same thoughout the period under study. For those industries not specified in the above study, we have assumed that the capital employed per unit of labour was about Rs. 2000.

remember that, in 1938-39, the capital employed in the major industries in the Punjab constituted only about 3.5 per cent of the corresponding amount for the whole of India (including that of the Native States). In relation to its share in the total population, it is clear, therefore, that the industrial development in the Punjab was quite unimpressive.

This, however, is attributable to its deficiency in mineral resources (particularly in coal) and partly to the unfavourable railway rates and fiscal policies which were designed to encourage the export of food and raw materials from the region. Even the change in the fiscal policy in the inter-war period did not do much for the development of industries in the Punjab.

Conclusion:

It is evident from the above study that public investment in the economic overheads has been a powerful factor in bringing about certain far-reaching changes in the Indian economy over the period under study. Apart from being complementary to one another, the bulk of the public investment was complementary to the investment in the private sector. In a way, all the sectors of the economy were inter-dependent, each stimulating the growth

of the other. But, since the magnitude of the public investment involved was not very large as a proportion of the national income and also was fluctuating over the period, the overall impact on the economy was not very impressive. While the introduction of the means of transport and communication hastened the process of commercialisation, it could not take the economy very much beyond the rudimentary stages of industrialisation. The fiscal policy pursued by the Government also impeded the growth of industries in India, while, the rates policy followed by the railways encouraged concentration of industries near the ports without reference to other basic locational advantages.

The lopsidedness of the industrial development was further accentuated by the uneven distribution of public investment over the different regions. The unimpressive industrial development in the South could partly be explained by the diffusion of even the relatively small amount of public investment over a vast area. The North Eastern region, which received a relatively large share of the investment in railways reached a greater degree of industrialisation as compared with the other regions. This development, however, was the joint product of public investment (which provided the basic overhead facili-

ties) and foreign capital (which provided the supplementary investments necessary to realise the external economies provided by public investment). In so far as foreign capital was dominant in the plantations, jute and coal mining industries of this region and the profits from these were exported abroad, the benefits arising from public investment accrued, to a large extent to foreign nationals.

In the case of the Punjab, where there was a concentration of investment in irrigation as well as in the means of transport and communication, we noticed considerable progress in agriculture and in the growth of trade from the last quarter of the 19th. Century, but since the resources endowments and the fiscal and railway rates policies played a predominant role in determining the pattern of economic development, the growth of industries was somewhat insignificant as compared with the prosperity in agriculture and trade. Nevertheless, it remains true that public investment in the Punjab made the deserts rejoice and the barren lands smile.

Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1972.

"REGIONAL IMBALANCES AND THE PROCESS OF CHANGE IN INDIA"

by

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REGIONAL IMBALANCES AND THE PROCESS OF CHANGE IN INDIA

Pradhan H. Prasad.

India presents a picture of extreme regional variations[1] in terms of some of the oft quoted indicators of economic well-being. Punjab (including Haryana), Maharashtra and Gujarat happen to be on the top in terms of per capita income. Bihar, U.P. and Orissa happen to be at the bottom. The ratio between the state showing the highest and the lowest per capita income happens to be about two. According to provisional figures of Census of India, 1971, the percentage share of Agriculture (Cultivators and Agricultural Labourers) in the Working Force happens to be 68.63. The highest dependency on agriculture is recorded by Bihar (80.40 per cent) followed by M.P., Orissa and U.P. The lowest is recorded by Kerala (48.63 per cent) followed by West Bengal, Tamil Nadu, Punjab and Maharashtra. The percentage of urban population to the total population is highest (31.20 per cent) in Maharashtra followed by Tamil Nadu and Gujarat and is lowest (8.27 per cent) in Orissa followed by Assam and Bihar. The percentage of Workers in Manufacturing (other than in Household Industry) to total population in 1961 was highest in West Bengal (3.78 per cent) followed by Maharashtra, Kerala, Gujarat, Tamil Nadu and Punjab and was lowest in Orissa (0.49 per cent) followed by Rajasthan, Assam, Bihar and U.P. The regional pattern of industrialisation as revealed by the

data relating to Factory Employment[2] is also not significantly different than the pattern outlined above. About three fifth of the rural population were found to remain below the normative minimum level of living in 1967-68 in the states of Bihar, M.P., Orissa, Tamil Nadu, U.P. and West Bengal[3]. The states with relatively low proportion (i.e., about three tenth) of population remaining below the normative minimum were Assam and Punjab. All these and other scattered facts provide us with a picture of poor areas which are mostly located in Eastern India and the relatively prosperous areas of Punjab, Maharashtra, Gujarat and to some extent Western U.P. The poor areas broadly speaking are Bihar, Easterh U.P. Orissa, M.P., rural Tamil Nadu and rural West Bengal. It can also be seen with reference to the similar available facts of the earlier period that the areas which are poor now were also poor when India became independent. The same is true for the relatively prosperous areas. Thus, there has hardly been any significant directional change in the regional pattern during the post-independence era. The significant change, if any, is one of increasing regional disparities in the last few years. But to put all these in proper perspective one has to go back a little in time.

The ascedency of British power in India brought about decline in the one time flourishing handicraft and cottage industry and also slowly eroded the economic isolation of the

villages. But the colonial exploitation while adding to the misery and privation of Indians, revolutionised the methods of transport and thus, brought limited industrialisation of the economy. This resulted in a process leading to capitalist development which was very slow and also uneven. As the Britishers, a maritime power, entered India by sea-route, their trading activities (which subsequently provided capital and impetus for the limited industrialisation) were confined to coastal areas and port cities. Thus, they helped the development of only those areas which were relatively prosperous on account of manufacturing and trading activities. The areas associated with sizable manufacturing activities in the eighteenth century were Dacca, banaras, Agra, Multan Burhanpur, Lahote, Ahmedabad, Patan, Baroda, Broach and Surat and the trading centres of significance were to be found in the coastal areas and also in Sindh, Punjab, Western U.P. and Delhi[4].

The rural British India, however, depicted a very strong survival of feudal structure. The tiller of the soil remained the most oppressed class in the British Tenurial system - the Zamindari Settlement in Bengal, Bihar, Orissa parts of Eastern U.P., North Madras and some parts of South India; the Ryotwari Settlement in rest of Madras, Bombay, Assam and parts of U.P.; Mahalwari Settlement in Western U.P. and Punjab and Malguzari Settlement in

Central Province. The picture that emerged was one of powerful Zamindari Taluqdar aristocracy dominating the Indian rural scene in the Zamindari Settlement areas wherein the tenants were harassed by illegal exactions such as 'salami', 'nazarana' and 'begar' etc. In other areas also the big peasants leased out land to tillers. Thus, the majority of peasants, all over India, were cultivating lands wholely or mainly unowned. One finds a long stratification of land owners, tenants and sub-tenants wherein the actual tillers mostly found themselves at the bottom. This alongwith high pitch of land rent created a situation wherein large majority of rural households emerged deficit households in the sense that invariably their consumption expenditures (bare minimum) exceeded their incomes. With the passage of time these rural households found themselves in the clutches of the rural rich from whom they took loans on exorbitant rates of interest, to whom they sold and mortgaged land and who often aided them in return for their becoming a bonded person. This has been responsible for increasing concentration of wealth and land in the hands of few, emergence of a class of small farmers with uneconomic holdings and landless agricultural labourers, miserable agricultural wages, debt slavery and bondage of labour etc. In such a situation households with positive

savings invested them in giving consumption loans to rural poor at exorbitant rates of interest and in purchasing land from them. They, thus, financed the consumption of the rural poor and brought about a situation wherein the net investment in the rural sector was almost negligible. The situation, therefore, remained inimical to development. Such a situation however, did not develope in any acute form in Punjab, Gujarat and Maharashtra. It has been said for Punjab that almost every peasant household had some one in army. This supplemented the household incomes and did not allow the situation to become very inimical to development as in the most part of the country. Similar was the case with Bombay because significant proportion of the households had some one in trade outside their state. They also supplemented the household incomes.

The other factor which helped the prosperous areas was the uneven investment in irrigation during the British period and thus, helped the process of uneven change. Out of total capital outlay in India (excluding the areas which form the part of Pakistan and Bangla Desh) on irrigation during the British period, about 33.05 per cent went to U.P.

23.84 to Madras, 13.18 to Bombay, 10.80 to Punjab, 8.01 to M.P., 4.40 to Bihar, 4.04 to Orissa and 2.67 to West Bengal[5] while West Bengal shared about 7.06 percent of Indian population, Bihar about 11.37, M.P. about 7.53, U.P. about 18.25 and Bombay and Punjab shared respectively about 8.40 and 2.50 per cent during the first half of the twentieth century.

The British Policy of tinkering with agrarian reforms on fringes in the thirties and forties of the present century (under the pressure of agrarian discontent) and inflationary situation of forties brought a distinct relief to peasantry and (in a lesser degree) to the weaker section of the society in the Mahalwari and Royatwari Settlement areas. The strong feudal opposition to such policies at the operational plane in the most of the Zamindari Settlement areas allowed the rural structure to remain exploitative and thus, inimical to development. This would be evident from the fact that the proportion of active and Semi-active Cultivating Labourers and Cultivators of land wholely or mainly unowned classes to the total of all agricultural classes increased over the period 1931-51 in Bihar, West Bengal, Travancore Cochin, M.P. and Hyderabad, remained almost the same in Madras and sharply declined in Bombay, U.P. and Punjab[6].

The inflation of forties of this century and thereafter further helped the realisation of the relative prosperity in the states of Maharashtra, Gujarat and Punjab because of their having relatively high average area per operating households[7] compared to the poor states. Hardly anything happened in the post-independence era to bring about a directional change in the process of development so as to bridge the gap between the rich and the poor areas. It will be seen that the per capita plan outlay for the first three plan periods (1950-65) was highest for Punjab (Rs.300) followed by Maharashtra and Gujarat and lowest for U.P. (Rs.127) and the second lowest for Bihar (Rs.128). The absence of effective land reform measures allowed the agrarian structure in most of the rural India to remain initical to development. Some approximation to bread pattern of change with respect to relative dependence on agriculture, can be had from the available data relating to share of Agriculture in the Male Working Force[8] over the period 1911 to 1971. The share remains almost the same in Assam, Kerala and Mysore, shows some increase in Andhra Pradesh, Bihar, Gujarat, M.P. Punjab, Rajasthan and U.P. and has declined in Madras, Maharashtra and West Bengal. But the states showing high and low dependence on agriculture remain the same over the

past six decades. The imbalances persist. An even and overall development of the country still remains a far cry.

All these lead up to an important question. Can we initiate a process of development which would tend to reduce regional disparities? It should be understood at the outset that in a big country like India this can hardly be achieved by rapid industrialisation. Rapid industrialisation requires huge investment per person. Therefore, a structural change creating condition for a high and dispersed net investment in agriculture (inclusive of irrigation) and intensive use of land alongwith a widespread growth of household industries (using labour intensive techniques of production) can alone lead to such a process of development.

But the labour intensive technique of production cannot obviously be used in all the sectors of the economy. It can be shown that adoption of techniques of production which increase employment for the same amount of inputs leads to increased cost and hence, increased price of the non-basic commodity without either adversely affecting the rate of profit or the rate of growth of capital[9]. Here there seems to be no conflict between short-run and long-run objectives of employment unless the demand for the

commodity is drastically reduced on account of its increased price. That, of course, may adversely effect output and employment. So there is a case for enforcing the adoption of labour intensive techniques for production of such non-basic commodities which have a wide and dispersed market without any close substitute.

Textile industry offers a good example in the Indian context. The product of this industry has a widely dispersed market without any close substitute. It may be possible to enforce a regulation whereby the weaving of some popular variety of textile is reserved exclusively for the 'process of production not using power'. For example, the 'process of production using power' should be allowed weaving of only mono-coloured textile. The processes such as printing of textile and weaving of printed and multicoloured textile, thereby, are exclusively reserved for the 'household and small producer sector not using power'. This will imply an increase in relative prices of such textile (in absence of subsidy). Even then there is likely to be sufficient high demand for such qualities. It is even possible to visualise that the demand will be greater than the production in the initial phase. As the demand will be dispersed all over the country, there will be a sufficiently high rate of earning

for 'household and small producer sector not using power' resulting in a big push for expansion of the sector. Suitable policy measures associated with training programme for weaving and hand printing of textile may result in quick expansion of this sector all over the country. One can think even of other kind of such protections. In any case, the expansion of 'household and small producers sector not using power' will adversely affect the textile mill industry. The proportion of population employed in textile mill sector may also register a decline but the proportion of population employed in textile production as a whole will increase very rapidly and the increase in employment and earning will be dispersed all over the country. The economic gains to the weaker section of the population will be considerable. As mono-coloured textile will be available for low wage and low income earners, these varieties will constitute the basic-good mix. As subsidy will not be the kingpin of such policy measures, there is little possibility of emergence of 'intermediaries' and 'parasitic elements as has happened during the past two decades of developmental planning.

This may be brought within a framework wherein organisations of adult agricultural labourers (with no or

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inadequate land), one in each village, are made responsible for all development work in the rural sector. They become the recipient of all developmental loans and aid from the government (so as also to encourave community use of land) to the exclusion of private sector and are entrusted with the task of enforcing decisions about ceiling on land and wealth, distribution of land and debt redemption etc.[10] This may eventually result in strengthening democratic forces so as to frustrate the existing collusion between the rich and the bureaucracy and thus, pave the way for rapid development that would result in drastic narrowing of disparities. It would be necessary, however, to develop industrial and income policies consistent with the aforesaid policy frame.[11] This would imply an equatable wage and salary structure and steps to gradually bring all minining, industrial and wholesale trade operations under the public sector and a system of workers control over these.

FOOTNOTES

1. In this paper we will be mainly concerned with the state-wise variations confining ourselves to the states of Andhra Pradesh, Assam, Bihar, Gujrat, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab (including Haryana), Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal as a first approximation to the understanding of the process of change.

2. Reserve Bank of India Bulletin, July 1971.

3. Bardhan, Pranab K., 'On the Incidence of Poverty in Rural India of the Sixtees', (memeograph), Indian Statistical Institute, Planning Unit, New Delhi, Discussion Paper No.55, January 1971, p.25.

4. Tarachand, (1961), History of Freedom Movement in India, Vol.1, Ch. IV.

5. Estimates are based on information available in Census of India 1951, Vol. I, Part I-B-A-Appendices to the Census Report, 1951.

6. Census of India, op. cit., p 234-57.

7. Dandekar, V.M. and Rath, No,(1971), Poverty in India,p.84.

8. This is because "the figures for males are generally regarded as more firm, being less susceptible to changes in concepts and procedures, and it is conventional to depend on them", Krishnamurty, J., 'Working Force in 1971 Census', Economic and Political Weekly, January 15, 1972, p.117.

9. Prasad, Pradhan H., 'Growth and Employment', Indian Economic Journal, July-September 1967.

10. See Prasad, Pradhan H., 'Some Policy Priorities', Economic and Political Weekly, Special Number July 1971, pp.1575-76 for a brief outline of the policy package.

11. See Prasad, Pradhan H., (1970), Growth with full Employment, pp.40-43.

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SEMINAR
ON
"REGIONAL IMBALANCES - PROBLEMS AND POLICIES"
(with special reference to Industry)

March 3 & 4, 1972.

A NOTE ON THE INDUSTRIALIZATION OF BACKWARD AREAS

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A NOTE ON THE INDUSTRIALISATION OF BACKWARD AREAS

Balanced regional development has been an important policy objective since the beginning of the planning era and finds an increasingly important place in plan formulations. The elimination of regional imbalances and ensuring even growth is expected to help in fully utilising all available resources and in the process spread economic prosperity to a wide section of the country.

2. Two Working Groups were set up by the Planning Commission in 1968 to study the question of regional imbalances - one of which (the Wanchoo Working Group) recommended the giving of fiscal and financial incentives for starting industries in the backward areas and the other (the Pande Working Group) recommended certain criteria for the identification of backward areas. The incentives to be given, as recommended by the Wanchoo Working Group, include those to be given by (a) financial institutions, (b) the Centre and (c) by the State and Union Territories. A Committee of the National Development Council considered in September, 1969, the report of the Two Working Groups and took the following important decisions:-

a) The general concessions offered by financial and credit institutions for financing industries should be available to backward areas of all States and Union Territories.

b) The financial and credit institutions will formulate suitable criteria in consultation with the State Governments and the Planning Commission to identify such backward areas requiring incentives for industrial development.

c) The Government of India would subsidise the establishment of industrial units in the backward areas, the subsidy being one-tenth of the total fixed capital investment of projects, both in the private and public sectors, where such capital cost does not exceed Rs. 50 lakhs in individual cases.

d) The subsidy will be available for industrial schemes in two districts in each of the 9 States of Andhra Pradesh, Assam, Bihar, Jammu & Kashmir, Madhya Pradesh, Nagaland, Orissa, Rajasthan and Uttar Pradesh. In other States and Union Territories, the subsidy will be available in one district in each case.

e) The Central subsidy as well as the concessions from financial institutions will be in addition to incentives offered by the State Governments themselves.

3. In consultation with the States, the Planning Commission has selected about 200 districts to qualify for concessional finance for industries started there. A list of these districts is enclosed at Annexure I.

4. The Financial Institutions, viz., I.D.B.I., I.F.C.I., and I.C.I.C.I. have announced the concessional terms applicable to the districts mentioned in para 3. These concessional terms are at Annexure - II.

5. Again, the Planning Commission have in consultation with the State Governments selected the districts/areas eligible for the 10% Central grant or subsidy for industries started there. A list of such districts/areas is at Annexure III.

6. A copy of the skeleton scheme to operate the 10% Central grant or subsidy referred to in para 5 and announced on August 26, 1971 may be seen at Annexure IV.

7. In addition, there is a scheme to give transport subsidy equivalent to 50% of the transport cost of both raw materials and finished goods for all new industrial units to be set up in the States of Jammu & Kashmir, Assam including Meghalaya, Nagaland and the Union Territories of Manipur, Tripura and NEFA. In the case of existing units also, the subsidy is payable for expansion or diversification if this leads to an increase in production of at least 25% over the average annual output during the preceding three years. In such cases the subsidy will be restricted to 50%

of the transport cost of the additional raw materials required and the finished goods produced, as a result of the expansion or diversification. A copy of the scheme announced on July 15, 1971 is at Annexure V.

8. The Ministry of Industrial Development will be responsible for the operation of both the schemes mentioned in paras 5 to 7. A provision of Rs. 5 crores has been made for this purpose for the entire Fourth Plan period, the budget provision for 1971-72 being Rs. 10 lakhs.

9. In addition to this, the Industrial Development Bank of India in collaboration with other financial institutions like the Reserve Bank of India, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India and the Agricultural Refinance Corporation of India has initiated surveys of backward States/Union Territories in the country with a view to identifying their industrial potential and assessing the infra-structure facilities available. The survey would also assess the availability of raw materials and marketing prospects for industries which may be developed in the backward areas. The members of the survey team are drawn from the Industrial Development Bank of India, Industrial Finance Corporation, Industrial Credit and Investment Corporation of India,

Reserve Bank of India and the Agricultural Refinance Corporation. So far surveys of Assam, Tripura, Jammu & Kashmir and Bihar have been completed. Surveys of Rajasthan, Orissa and U.P. will be completed very soon. After identification of the project ideas on the basis of these surveys, the reports will be discussed with the concerned State Governments officials and State Industrial Corporations or State Financial Corporations to get, in collaboration with them, preliminary feasibility reports prepared in respect of identified projects. In order to supervise and get this survey work followed up, a Committee of Direction comprising the General Manager, I.D.B.I., Chief Officer, Industrial Finance Department, R.B.I, General Manager, I.C.I.C.I., Statistical Adviser to the Reserve Bank of India and the Managing Director, Agricultural Refinance Corporation and also the Joint Secretary in the Ministry of Industrial Development dealing with backward areas has been formed.

It is expected that all the above mentioned measures will eventually help the industrial development of the backward States/Areas in due course.

ANNEXIRE - I

LIST OF INDUSTRIALLY BACKWARD DISTRICTS SELECTED FOR CONCESSIONAL FINANCE FROM THE FINANCIAL INSTITUTIONS.

S. No.	State	Districts
1.	Andhra Pradesh	Nalgonda, Medak, Mahbubnagar, Karimnagar, Warangal, Khammam, Chttoor, Anantapur, Kurnool, Nizamabad, Sri Kakulam, Qidappah, Ongole and Nellore.
2.	Assam	Goalpara, Cachar, Nowgong, Kamrup, Mikir Hills, Mizo Hills District and North Cachar Hills.
3.	Bihar	Santhal Parganas, Bhagalpur, Palamau, Champaran, Saran, Darbhanga, Purnea, Muzaffarpur and Saharsa.
4.	Gujarat	Panchamahals, Kutch, Amreli, Broach, Sabarkantha, Banaskantha, Bhavnagar, Mehasana, Surendernagar and Junagadh.
5.	Haryana	Mohindergarh, Hissar and Jind.
6.	Himachal Pradesh	Chamba, Kinnaur, Kangra, Kulu and Lahul and Spitti.
7.	Jammu & Kashmir	Srinagar, Anantnag, Baramula, Jammu, Kathua, Udhampur, Poda, Ladakh, Poonch, and Rajouri.
8.	Kerala	Appleppey, Trivandrum, Cannanore, Trichur and Malapuram.

..(ii)

9.	Madhya Pradesh	Bastar, Mandla, Surguja, Seoni, Jhabua, Balaghat, Bilaspur, Sindhi, Betul, Raigarh, Raipur, Dhar, Tikamgarh, Rajgarh, Kargone, Shajapur, Shivpuri, Chhatarpur, Rewa, Panna, Dewas, Mandsaur, Guna, Datia, Morena, Vidisha, Narasimhapur, Raisen, Hoshangabad, Damoh, Bhind, Sagar and Chindwara.
10.	Maharashtra	Bhir, Osmanabad, Bhandara, Ratnagiri, Aurangabad, Yeotmal, Chanda, Dhulia, Buldhana, Nanded, Parbhani, Jalgaon and Colaba.
11.	Meghalaya	Both the districts of United Khasi and Jaintka Hills and Garo Hills.
12.	Mysore	Belgaum, Bidar, Bijapur, Dharwar, Gulbarga, Hassan, Mysore, North Kanara, Raichur, South Kanara and Tumkur.
13.	Nagaland	Kohima, Mokokchung and Tuensang.
14.	Orissa	Bolangir, Mayurbhanj, Dhenkanal, Kalahandi, Balasore, Keonjhar Koraput and Phulbhani.
15.	Punjab	Hoshiarpur, Bhatinda, Gurdaspur and Sangrur.
16.	Rajasthan	Jalore, Banswara, Dungarpur, Nagpur, Churu, Alwar, Tonk, Udaipur, Jodhpur, Jhunjhunu, Sikar, Sirohi, Bhilwara, Jhalawar, Jaisalmer and Barmer.
17.	Tamil Nadu	South Arcot, Tiruchirapalli, Madurai, Ramanathapuram, Kanyakumari, North Arcot, Thanjavur and Dharmapuri.

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~~18.~~	Uttar Pradesh	Almora, Azamgarh, Baharaich, Banda, Ballia, Badaun, Chamoli, Fatehpur, Garhwal, Ghazipur, Hamirpur, Hardoi, Pilibhit, Jalaum, Jaunpur, Jhansi, Mainpuri, Pithorgarh, Pratapgarh, Bae Bareli, Sultanpur, Tehri Garhwal, Unnao, Uttar Khashi, Barabanki, Basti, Bulandshahr, Etah, Etawah, Faizabad, Gonda, Mathura, Farrukhabad, Moradabad, Shahjahanpur and Deoria.
19.	West Bengal	Purulia, Bankura, Midnapur, Darjeeling, Malda, Cooch Bihar, West Dinajpur, Murshidabad, Jalpaiguri, Birbhum, Burdwan, Hooghly and Nadia.

Union Territories

1.	Andaman & Nicobar Island	Entire area.
2.	Chandigarh	Nil
3.	Dadra and Nagar Haveli	Entire area
4.	Delhi	Nil
5.	Goa, Daman and Diu	Entire area.
6.	Laccadive, Amindive & Minicoy Islands.	The inhabited islands.
7.	Manipur	Entire area
8.	NEFA	Entire area
9.	Pondicherry	Entire area
10.	Tripura	Entire area.

CONCESSIONAL FINANCE BY THE INDUSTRIAL DEVELOPMENT BANK OF INDIA TO PROJECTS IN SPECIFIED BACKWARD AREAS.

Detailed terms and conditions:

(i) Rate of interest

Two per cent above Bank Rate with a minimum of 7 per cent for annum (with a penalty of 1/2% for defaults) against the present normal rate of 8% with a 1/2% penalty.

(ii) Extension of initial moratorium in the repayment of loans:

The I.D.B.I. will allow 5 years moratorium to the assisted concerns for the first repayment of the principal amount of loans, against the normal practice of 3 years.

(iii) Longer amortisation period for loans:

Against the normal repayment period of 10 to 15 years, projects from the backward areas would be allowed a longer period of 15 to 20 years.

(iv) Participation in risk capital:

Depending on the merits of the case, the I.D.B.I. may subscribe relatively heavily to the risk capital or projects in backward areas.

(v) Reduction in the underwriting commission:

The underwriting commission in respect of public issue of shares/debentures made by concerns in backward areas could be reduced by 50%, i.e. it could be 1-1/4/$\frac{3}{4}$% instead of 2$\frac{1}{2}$%/1$\frac{1}{2}$% at present.

..(ii)

(vi) Reduction in commitment charge:

At present, the I.D.B.I. charges a rate of 1 per cent per annum on account of commitment charge on amounts which remain undrawn by the assisted concerns. This charge may be reduced to ½% or waived altogether in exceptional cases for projects in the backward areas.

(vii) Consultants' Charges:

The I.D.B.I. may also bear the cost of consultancy services to prepare feasibility reports for the entrepreneurs initially, subject to reimbursement later when the project reaches the profitability stage.

(viii) Other terms and conditions:

The I.D.B.I. already follows a flexible attitude in respect of promoters' contribution, margin requirements, etc. The I.D.B.I. may continue to adopt similar attitude in respect of projects from backward areas and relax these requirements depending on the merits of each case. The I.D.B.I. may also agree to suitable postponement of the interest payment in the initial years of the projects.

INDUSTRIAL FINANCE CORPORATION OF INDIA
NEW DELHI.

The Industrial Finance Corporation of India has decided to extend financial assistance on concessional terms to small and medium sized industrial enterprises in backward States/areas. The facilities to be allowed, it is hoped, will help accelerate the pace of industrial development in such areas. The concessions to be extended are as follows:

(i) Rate of interest:

As against the current rate of interest at 8½% (with a rebate of ½% for punctual payments of instalments of interest and principals) at lower rate of interest i.e. 7½% (with a rebate of ½%) will be charged.

(ii) Initial grace period for commencement of repayment of loans:

The Corporation's normal practice is to allow 3 years moratorium to an assisted concern for the first payment of the principal amount of the loan. In the case of undertakings in backward areas, this period would be extended to five years from the date of the first disbursement of the loan.

(iii) Amortisation period for loans:

As against the normal period of 10 to 12 years for repayment of loan, this period would be extended to 15/20 years.

(iv) Margin of Security:

The present practice of the Corporation is to aim at a margin of 50%; this would be reduced to 30/35%. In other words, an equity debt ratio of 1:2 would be acceptable.

..(iv)

(v) <u>Promoters contribution:</u>

The Corporation would be prepared to accept a lower contribution from the promoters, to the cost of the project than its normal requirements.

(vi) <u>Participation in equity and preference capital:</u>

Depending on the merits of each case, the Corporation would be prepared to consider participation by way of underwriting or otherwise in the share capital of an industrial concern located in a backward area/state to a greater extent as compared to projects located elsewhere.

(vii) <u>Reduction in other charges:</u>

50% reduction will be made on the Corporation's normal charges in respect of underwriting commission, commitment charge, non-refundable examination fee for processing of applications and legal charges.

2. Projects in backward districts/areas which would receive grant/subsidy from the Central Government would also be eligible for IFC's concessions.

3. The concessions will normally be applicable to cases where the total project cost does not exceed Rs. 1 crore; concessional finance for bigger projects would be considered on a selective basis.

4. Financial assistance from the Corporation is available only to public limited companies incorporated in India or registered cooperative societies and as such, the above mentioned concessional terms will be appliable only to such concerns which meet this requirement.

INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA

CONCESSIONAL TERMS FOR RUPEE ASSISTANCE TO COMPANIES IMPLEMENTING PROJECTS IN CERTAIN BACKWARD AREAS.

1. The rate of interest on rupee loans would be at 7% per annum, instead of the current normal rate of 8½%. No contingent interest will be charged for private limited companies implementing project in backward regions.
2. In the case of underwriting of shares/debentures for projects in backward regions, underwriting commission would be charged at half the normal rate of 1¼% on shares and ¼% on debentures.
3. A commitment charge of ½% will be payable on the loan from the date of signing of the heads of agreement as against 1% normally charged at present.
4. A margin of 30 to 35%% would be acceptable in the value of assets for securing the loan.
5. The grace period allowed for starting of repayment of the loans would be five years as against two or three years normally allowed and the repayment of the loans would be spread over 15 to 20 years as against 10 to 12 years normally stipulated.

LIST OF INDUSTRIALLY BACKWARD DISTRICTS/AREAS SELECTED TO QUALIFY FOR THE 10 PER CENT CENTRAL SUBSIDY.

S.No.	State	Districts/Areas.
1.	Andhra Pradesh	*Vide* page No.(iii)of this Annexure.
2.	Assam	Goalpara and Mikir Hills
3.	Gujarat	Panchmahals
4.	Bihar	Darbhanga and Bhagalpur
5.	Haryana	Mohindergarh
6.	Himachal Pradesh	Kangara
7.	Jammu & Kashmir	Srinagar and Jammu
8.	Kerala	Appleppey
9.	Madhya Pradesh	2 areas (one comparising 12 Blocks from the districts of Bilaspur and Raipur (6 Blocks each) and the other of 10 Blocks (from the district of Dewas (2 Blocks), Shajapur (3 Blocks), Rajgarh (2 Blocks) and Guja (3 Blocks)
10.	Maharashtra	Ratnagiri
11.	Mysore	Raichur
12.	Meghalaya	United Khasi and Jaintia Hills and Garo Hills.
13.	Nagaland	Kohima and Mokokchung
14.	Orissa	Kalahandi and Mayurbhanj
15.	Punjab	Hoshiarpur
16.	Rajasthan	Alwar and Jodhpur
17.	Tamil Nadu	A unit area of 10 Talukas from the districts of Ramanathapuram (6 Talukas), Madurai (1 Taluka) and Tiruchirapalli (3 Talukas).
18.	Uttar Pradesh	Ballia and Jhansi
19.	West Bengal	Purulia.

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Union Territories

1.	Andaman & Nicobar Islands	The entire territory.
2.	Dadra and Nagar Haveli	
3.	Lacadive, Minicoy and Amindive Islands	
4.	NEFA	
5.	Tripura	
6.	Manipur	
7.	Goa, Daman & Diu	Entire district excluding the area within the municipal limits of their capitals.
8.	Pondicherry.	

SELECTED AREAS/TRACTS FROM ANDHRA PRADESH FOR 10% SUBSIDY SCHEME.

I. 'Area'/Tract from the Rayalaseema Region, Comprising Blocks

S.No.	Blocks	Comprising Blocks
1.	Chandragiri	from the district of Chittor
2.	Prodattur	from the district of Cuddapah
3.	Kamalapuram	
4.	Cuddapah	
5.	Pulivedla	
6.	Ranjampet	
7.	Kodur	
8.	Sindhout	
9.	Singanamala	from the district of Anantapur
10.	Tadipatri	
11.	Gooty	
12.	Kurnool	from the district of Kurnool
13.	Dhone	

II. 'Area'/Tract from the Telengana region, comprising Blocks of:

1.	Siddipet	from the district of Medak.
2.	Paddapalli	from the district of Karimnagar
3.	Sultanabad	
4.	Karimnagar	
5.	Hazurabad	
6.	Hanamkonda	from the district of Warrangal
7.	Narasampet	
8.	Mehbubabad	
9.	Khammam	from the district of Khammam.
10.	Thirumalapetem	

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11.	Suryapet	from the District of Nalgonda
12.	Nalgonda	
13.	Mungodu	
14.	Makrekal	
15.	Kalwakurthy	from the district of Mehbubnagar.
16.	Amangal	

The municipal towns falling within the above 'areas'/tracts would also be entitled to Central subsidy of 10%, but not the municipal towns outside these two 'areas'/tracts.

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SEMINAR
ON
"REGIONAL IMBALANCES - PROBLEMS & POLICIES"
(March 3 & 4,1972)

S.No.	Name	Address	Paper
1.	Alagh, Y.K.	Director Sardar Patel Institute of Economic and Social Research Ahmedabad-6.	"Structure of Regional Imbalances in Industrial Development and Policies for the future".
2.	Bhat, L.S.	Indian Statistical Institute Yojana Bhavan New Delhi.	"The Process of Regional Development and the Issues Relating to Regional Imbalances in Development".
3.	Bose, A.N.	Industrial Economist C.M.P.O., 18-Rabindra Sarani Calcutta-1.	"A More Balanced Regional Development in India - The Main Bottlenecks in the way (some points for Discussion)".
4.	Chandrasekhar, C.S.	Additional Chief Planner Town and Country Planning Organisation Vikas Bhawan New Delhi.	"Regional Imbalances and Regional Planning : A Review of Regional Planning Efforts in India".
5.	-do-	-do-	"Regional Imbalances - Problems and Policies".
6.	Deva Raj	Director C.M.A., I.I.P.A., New Delhi.	"Administrative Problems of Regional Planning and Development".
7.	Khurana, I.R.	C.M.A., I.I.P.A., New Delhi.	"Disperal of Industries".

..2.

S.No.	Name	Address	Paper
8.	Mathur, O.P.	Joint Director Planning Commission Multi Level Planning Section Yojana Bhavan New Delhi.	"Backward Areas in Poor Countries: Problems and Perspectives of Development (with Special Reference to India)"
9.	Mukerji, K.	Professor of Commerce University of Calcutta Calcutta.	"Stagnation of the Eastern Region in India : A Problem and a Challenge".
10.	Rao, Hemlata	U.G.C. Scholar Delhi School of Economics University of Delhi Delhi.	"Identification of Backward Regions and Trends in Disparities in India"
11.	Rao, P. P.	Joint Secretary Ministry of Works & Housing and Chairman Town & Country Planning Orgn. Vikas Bhavan New Delhi.	
	&		
	Sundaram, K.V.	Senior Research Officer Town & Country Planning Orgn. Vikas Bhavan New Delhi.	"Regional Imbalances in India - Some Policy Issues and Problems".
12.	Sandesara, J.C.	Professor of Industrial Economics Department of Economics University of Bombay Bombay.32 (BR)	"Financial and Other Incentives as Factors Attracting Private Industry to Backward Regions".
13.	Thavaraj, M.J.K.	Professor I.I.P.A., New Delhi.	"Public Investment and Regional Imbalances: A Historical Review 1860-1960."

S.No.	Name	Address	Paper
14.	Venugopal Reddy	Deputy Secretary Planning & Cooperation Department Government of Andhra Pradesh Hyderabad.	"Balanced Regional Development in India".
			<u>Background Papers (circulated to N.D.C. Meeting in 1968)</u>
15.			"The Fourth Plan Mid-Term Appraisal".
16.			"The Role of Financial Institutions in Correcting Regional Imbalances".
17.			"Industrial Licensing Policy in relation to Regional Development".
18.			"The Operations of Financial Institutions".
19.			"Grants-in-Aid to States".
20.			"Investment of Central Projects in Different States".

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DISCUSSION PAPER

SEMINAR ON
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REGIONAL ASPECTS OF INDIAN INDUSTRIALISATION: STRUCTURE AND POLICIES

By

Yoginder K. Alagh

Conference Hall
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INDRAPRASTHA ESTATE
NEW DELHI.

REGIONAL ASPECTS OF INDIAN INDUSTRIALISATION: STRUCTURE AND POLICIES

Yoginder K. Alagh
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and Social Research

1.1 Regional Structure of Indian Industrialisation:

The regional structure of Indian industrialisation is much better known by now, in view of detailed empirical research that has been done on the subject during recent years. Broadly speaking two types of approaches have been followed in this research. One has been the examination of inter-industry dependence, to isolate the industrial structure and base of specific regions through the preparation of regional inter-industry tables.[1] The other approach has aimed at making inter-regional comparisons of industrial structure. It begins with an examination of the "reference technology" for the Indian economy to find out relatively self-sufficient blocks of industries which have developed in different regions.[2] We shall

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1. See Yoginder K. Alagh and S.P. Kashyap "Problems and Uses of Regional Input-Output Models", Third All-India Input-Output Conference (Bombay, 1970), Anvesak, June 1971, pp. 16-34;
G.S. Bhalla "Sectoral Income Multipliers in the Punjab and India, Ninth Indian Econometric Conference, Patna, 1969. Anvesak, December 1971, pp. 210-229; and
G.S. Bohra and S.S. Mehta: A Note on an Input-Output System of Rajasthan's Industrial Economy, 1964, Anvesak, December 1971, pp274-280.
2. Yoginder K. Alagh, K.S. Subrahmanian and S.P. Kashyap "Regional Industrial Diversification in India: Some Factual Analysis", Economic and Political Weekly; Vol. VI, No. 15, April 1971; and Yoginder K. Alagh, Regional Aspects of Indian Industrialisation (to be published by Bombay University Press).

not repeat here the details of the methodology and results of these exercises, but shall only note the salient features emerging from them.

1.2 The examination of data for 1965 as well as comparisons with 1956 shows that the relative levels of industrial diversification of the States of India has not changed much, during the decade covered by the Second and Third Five-Year Plans. In this context, it may be noted that the position of some of the less developed States such as Orissa has if at all deteriorated. Again the industrially diversified States of the national economy are only those of Maharashtra, Bengal and Tamil Nadu. The only State which has made considerable gains in this respect is Mysore.

1.3 The major public sector investments have been in the States of Orissa, Madhya Pradesh and Bihar. There is convincing evidence to the effect that these investments have not, as expected by the planners, led to industrial diversification of these regions. In Orissa, public sector investments in ferrous metals and fertilizers have not led to diversification around this base, for example, with an equipment group of industries or consumer industries manufactured out of metal. The same situation holds for public sector investment in iron and steel, electrical equipment and fertilizers in Madhya Pradesh. In Bihar, while major private sector industrial projects existed before the important industrialisation programmes in the Five-Year Plans there does not seem to have been much diversification

around the new investments in heavy machinery, railway equipments, fertilizers and petroleum. The only region which has diversified its industrial economy around public sector investment is Mysore. While the reasons for this diversification have yet to be examined closely its existence cannot be denied. A preliminary hypothesis in this connection, may be that the packet of public sector investment in Mysore itself was of a more diversified nature, i.e., machine tools, telephone equipment, railway equipment, etc.

1.4 Regions like Delhi and Punjab (including Haryana) have diversified their industrial mix in spite of the fact that major public sector projects have not been located there.

1.5 The industrial base of regions like Assam and Jammu and Kashmir is entirely raw material based, with very little diversification around it. In regions, such as, Gujarat and Rajasthan, industries are again primarily raw material based, although there seems to have been diversification around these industries.

1.6 The above should not be construed as an indictment of the policy of public sector investment in general. However it does imply that the location of major industrial projects in backward areas does not by itself lead to a process of industrial diversification or of cumulative industrialisation in the region. Planning policies, therefore have to be oriented in more specific terms to bring about such results if they are considered desirable. It seems that during the last two decades our conscious policy of industrialisation has not

led to structural changes in the context of the regional structure of industry. The regional structure of industries that we inherited as a part of the historical development of the industrial sector of the Indian economy, under the impact of the development of industries as a part of the opening up of process of the national economy to forces of international trade, has not substantially changed.

2.1 Employment Generation Effect at the Regional Level

The effect of industrial investment and output expansion on industrial employment at the regional level has been a matter of natural concern to the policy planners. The direct employment effects of an industrial project on a region can be a very deceptive measure of the total employment potential (both direct and indirect) of the project in the region. Industrial investment in a project leads to a process of creation of a secondary employment potential in the regions economy which may or may not be related to the relative direct employment potential of an industry as compared to others. An examination of the direct and indirect effects of output expansion in each industry on the regional economy is therefore important. Such effects can be estimated only after allowing for the leakages in inter-industry purchases on account of net imports into the region. Table 1 below reproduces estimates derived from a regional input-output study of Gujarat.

Table - 1

Sectoral Employment, Multipliers Per Unit of Output for Gujarat, 1964-65

Sectors	Direct and Indirect Wage income generated per unit of output allowing for import leakages
1. Agriculture and Allied Activities	1.01034
2. Mining	1.13471
3. Construction	1.15325
4. Milk food and malted food	2.20738
5. Flour Mills & Starch	3.35594
6. Other Food and Agro-based	1,92041
7. Oil Industry	4.19349
8. Salt	1.00253
9. Textiles	1.00253
10. Chemicals	1.24500
11. Cement & Cement Products	1.15922
12. Non-metalic mineral Based	1.05847
13. Paper and Paper Products	1.07252
14. Basic Metals	1.04432
15. Equipment	1.0[illegible]72
16. Wood and Cork	1.30654
17. Miscellaneous Manufactures	1.05253
18. Leather & Rubber	1.24316
19. Electric Light and Power	1.00028

Source: Unpublished Estimates kindly [illegible] available by S.P. Kashyap, Sardar Patel Institute of Economic and Social Research.

Similar results have been obtained for 18 sectors through a regional input-output study of the Punjab economy.[3] As can be seen from this table, in Gujarat the agro-based and the non-metallic mineral-based industries have a higher employment potential. The results for Punjab

3. Op. cit Bhalla, Table-1.

also indicate that agro-based industries have a high employment multiplier effect.

2.2 Another way of estimating the employment potential in a region is to relate the initial investment in the leading industrial sectors of the region with the indirect employment created in other industrial sectors. The use of this technique has led to an estimate of the following regional employment multipliers with the use of industrial employment data for 1965:

Table - 2

Regional Industrial Employment Multipliers for the States of India, 1965

Sr. No.	State	Regional Employment Multiplier, 1965.
1.	Andhra Pradesh	1.57
2.	Assam	1.17
3.	Bihar	1.27
4.	Gujarat	1.42
5.	Jammu and Kashmir	1.15
6.	Kerala	1.33
7.	Madhya Pradesh	1.73
8.	Maharashtra	1.36
9.	Mysore	1.85
10.	Orissa	1.41
11.	Punjab	1.80
12.	Rajasthan	1.67
13.	Tamil Nadu	1.81
14.	Uttar Pradesh	1.91
15.	West Bengal	1.25

(Source: Yoginder K. Alagh, K.K. Subrahmanian and S.P. Kashyap, "Inter-regional Industrial Structure in a Developing Economy", Journal of Regional Science, Philadelphia, December 1971)

Table 2 indicates that the regional employment multiplier was the highest in U.P., followed by Mysore and Punjab. It was very low in States like Assam, Jammu & Kashmir and Bihar.

3.1 Policies for Regional Industrial Development

Having examined some of the important results of the studies of regional industrialisation in India, we may now turn our attention to policies for industrial development introducing regional aspects explicitly. This is indeed a complex problem. The argument that industrialisation should be left only to market forces in a situation of structural disequilibrium hardly deserves serious consideration. This in turn implies that excessive reliance cannot be placed on profitability of private investment for making investment decisions. The need for a framework of industrial planning is obvious. However having said this, it must also be realised that leaving important matters such as the location of industrial investments in the regional context to rule of thumb decisions, or to administrative judgement alone may prove to be very costly.

3.2 An example of such rule of thumb decisions is the policies followed by various State Governments to locate projects in "less developed regions of the State". The developed regions of the each State in this context are defined in a very exclusive manner and perhaps rightly so, since well developed industrial complexes are very rare in the Indian subcontinent, and as such nascent industrialisation in many areas should not be discouraged by providing relative

As the above table shows such general incentives can in practice be easily discriminating as between different industries. The question remains as to whether either from the viewpoint of the national economy or from the viewpoint of specific objectives of regional development, the industries being provided relative advantages, should in fact be encouraged. In any case the policy makers generally seem to be making these decisions without an explicit framework of definite objectives.

3.3 We may now turn to the question of formulation of industrial plans with the regional aspect introduced explicitly into the system. In this connection the following three approaches are being experimented with at present:

3.3.1 The first approach is to plan for industrial targets in a consistency framework in a region. This approach has been tried in the recently published Perspective Plan of Gujarat.[4] The approach begins with an inter-industry table for the regional economy, expenditure elasticities, investment targets for different sectors and targets for government expenditure and estimates of export and import propensities by each sector. The results are consistent output target for different sectors of the regional economy. It may also be noted that it is possible in such exercises to estimate the aggregate

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4. S.P. Kashyap and Y.K. Alagh, "A Consistency Framework for the Perspective Plan for Gujarat", published in Government of Gujarat Perspective Plan of Gujarat, 1974-84, (Gandhinagar Govt. Press, 1972) Vol.I, pp. 365-380.

employment potential of the regional plan, as also to introduce explicitly into it, well defined preferences that the policy makers may have for employment intensive industries. For the Gujarat perspective plan, for example, it has been estimated that the employment potential of all the perspective plan schemes would be an actual growth rate of employment ranging between 7 per cent to 10 per cent.[5] It is obvious that if such exercises are conducted for different regions of a national economy (Tamil Nadu is also preparing a perspective plan), the second stage of the planning process shall consist in terms of the national planners integrating the different regional plans into the industrial development plan of the national economy, introducing explicitly resources constraints at the national level as also the specific objectives of industrial policy at the national level. The advantage of this multi-stage planning process is that the impact of the regional part of the national plan is explicitly introduced from the inception of the plan. Simultaneously work can also begin on building up a consistent inter-regional plan for the national economy. Considerable work has already been done on decomposing national industrial reference technology into relatively sufficient blocks of industry. Corresponding to each block of industries there will be regions in which the industries within the block are expected to develop. Models being developed at present introduce regional consumption patterns inter-regional trade and

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5. *Ibid.*, p. 371., Also see Ch. I, p. 4.

regional investment programmes explicitly and using the blocks of the national reference technology, output targets can be forecast for dis-aggregated industry level analysis, say for 100 industries, separately for the different States of India. It may also be noted that such models can be used to derive desired output levels in different industries, specifically incorporating patterns of income growth which assume greater inter-regional equality.

3.3.2 Another approach would be to single out a particular block of inter-related industries and to estimate the relative advantages of different regions as candidates for investment in the respective block of industries. Such an analysis has the advantage of permitting a detailed exploration of raw material advantage, transport cost advantages and scale and localisation advantages.

3.3.3 A final approach is to develop a multi-scale optimisation model in which regional constrains are introduced explicitly. Experimental models of this type have already been prepared.[6] However a lot more work is necessary both at the data building level as well as the conceptual level if such models are expected to approximate reality.

3.4 In terms of planning exercises, therefore, considerable effort has been put in, in recent years to effectively build up the national industrial plans, explicitly introducing the <u>region</u> as a constraint. The advantage of such exercises in terms of the political economy of

6. P.N. Mathur and S.R. Hashim, "A Model for Optimum Location and Flows" in P.N. Mathur and P. Venkataramaiah (Ed) <u>Economic Analysis in Input-Output Framework</u> Vol.2, Poona: Input-output Research Association, 1969.

development is obvious. Disaggregated regional plans provide the possibility of a programme based discussion of economic plans in the local context throughout the country, which i turn is a pre-condition of effective popular participation in the planning process.

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Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(With special reference to Industry)
March 3&4, 1972.

"THE PROCESS OF REGIONAL DEVELOPMENT AND THE ISSUES RELATING TO REGIONAL IMBALANCES IN DEVELOPMENT

by

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THE PROCESS OF REGIONAL DEVELOPMENT AND THE ISSUES RELATING TO REGIONAL IMBALANCES IN DEVELOPMENT IN INDIA

Introduction: The causes for the persistence and often accentuation of regional imbalances in development are many and varied. There is no single criteria or methodology for the measurement of regional imbalances in development Moreover the regional concept implied in regional planning and in the measurement of regional imbalances has had political overtones. With this the issues relating to regional imbalances have focused mainly on the National and inter-State framework of the economic development plan. On the contrary the region, the spatial and locational dimensions of the regional and the national plan and the space relations constitute the basis of regional planning both in the context of regional development in national planning and in the preparation of a regional development plan for a selected region. The purpose of this paper is to focus on the problem of regional imbalance as related to the issues relating to regional development in national planning.

Regional framework and the spatial patterns of development prior to 1956

The plan for overall national planning started with a spatial pattern of economic activities in which there were atleast three broad types each influencing the emerging patterns of the present leading to accentuation of regional imbalances in development.

1. The national economy was polarised around the major urban-industrial nodes like Bombay, Calcutta, Madras and Delhi[1]. The patterns of nodality and the mominance of the large centres is clearly observed in the maps of distribution and growth of cities (750000 population) their functional specialisation and patterns of linkages.

2. Regional economies of lesser magnitude and varied patterns of spatial organisation had developed in parts of erstwhile British India and the princely states. Some of them, like the old Mysore State, had attained a higher level of development whose benefits were relatively extensive covering most parts of the state, while in the case of Telangana the pattern was one of 'polarisation' of the economy around Hyderabad resulting in sharp rural-urban disparities in development.

3. Contiguous and extensive areas of natural resources contributing to the development of basic and heavy industries had <u>transit</u> or <u>peripheral</u> situation with reference to the spatial patterns of functional organisation. These were, and to a large extent are areas of relatively low level of development with small pockets of developing areas around the newly emerging industrial complexex e.g. the South-East Resource Region comprising parts of Madhya Pradesh, Bihar, Orissa, West Bengal and Maharashtra.

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1. Berry B.J.L. (1967).

Persistance of the influence of these spatial patterns is evident if the areas with different levels of development as brought out by some of the recent studies are seived out and analysed separately.

<u>Regional Characteristics and the resource structure as the basis for initial differences in levels of development.</u>

Underlying the broad spatial patterns of the economies and the differences in levels of development within and between regions are the physical setting, resource structure and population distribution which provided some regions a better advantage over others in the process of development. For example, extensive areas of relatively homogeneous agricultural regions of the northern plains and the deltas stand out distinctly in contrast to the areas with low-land productivity in the semi-arid Rjasthan, Marathwada and Konkan in Maharashtra, Ramnad coast in Tamilnadu, Rayalaseema in Andhra Pradesh, and more can be added. The relevance of using the regional characteristics as the <u>bench mark</u> is to separate out to the extent possible(i) the role of the inherent regional characteristics that lead to imbalances in development and (ii)the policy measures that should be formulated in planning to correct those imbalances. For a lack of such an approach, a third dimension has been added in the last twenty years of planning in which the political pressures and 'regionalism' of narrow view points have influenced the pattern of allocation

of investments both in their sectoral priorities and spatial configuration. Therefore, in formulating a regional development policy in national planning all the three interrelated issues have to be given proper consideration. It would be a self-defeating purpose if the problems of correcting regional imbalances are given adhoc considerations as has been the practice so far. This would result in adding more areas or regions every year to the list of "under-developed areas[2].

Interrelated features of regional development and the problem of regional imbalance:

1. Regional development as implied in the conceptual and theoretical framework basically conveys the idea of spatial integration of different sectors of the economy within and between regions. This is one of the basic considerations in regional imbalances. The agricultural, industrial and population (or settlement) structures within a region may not always be adequate within a region for the purposes of integrated development. This is specially true for small regions or for regions at lower levels of a

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2. Government of India Planning Commission (1969) (i) Identification of Backward areas

______ (1971) (ii) Fiscal and Financial incentives for starting industries in Backward areas

The Fourth Plan - Mid-Term Appraisal Vol.I.PP.56-60.

regional framework of a country. Such a situation may also occur in large regions whose resource base is of poor quality. Therefore, policy formulation relating to regional imbalances would obviously be for large regions which possess the characteristics mentioned above. Here the issue is highly complex because the inter-regional imbalances are measured on the basis of federating states, whose resource structure and spatial patterns of the economies are widely different within them and often parts of States' economies would require integration with those of contiguous areas.

It is therefore necessary to re-examine the issue of regional imbalances in the national context for regions comprising groups of states in the first instance (economic regions). Economic regionalisation has been recognised as a strategy in development in both the unitory and federal system of governments as in the USSR, Poland, France and South-Korea. Could there be a fresh look at the strategy of correcting regional imbalances in the context of new thinking on multi-level planning and decision making in India?.

2. Regional development policy for the economic regions would spell out the strategy for regional economic growth by identifying the sectors/activities of regional and national importance. Present level of regional income, contribution of different sectors, proposed level of income

employment, production targets of different sectors/ activities should further be spelled out for different regions. Their spatial and locational patterns would also be included in the policy framework. It is in such a generalised regional plan frame that the specific policies such as of master plans for city-regions, development of growth centres, under-developed areas and areas with special problems would have to be formulated. The regional setting of under-developed areas or of the potential growth-centres is an important factor for creating opportunities for spontaneous growth of less developed areas. The coreperiphery concept in regional planning is of special significance in such a situation.

3. The practice so far has been to look upon the problem of correcting regional imbalances as an inter-state and intra-state problem, the issues relating to inter-State imbalances in development being the concern of the national plan. This approach has its limitations because of the lack of regional economic plans/framework for the national plan and the regional physical plans for intra-state regions. The solution to correcting regional imbalances have to be found in the regional physical plans. The latter gets refined when each District or Block is adopted as the basic unit for the preparation of an area development plan. A beginning has been made in the preparation of

area development plans at the District level but it would be long before they become the basis for the preparation of regional plans in detail. The urgency lies in the fact that the sectors of development of national and regional importance have to be identified in their present and possible future spatial patterns. This is an exercise in which the regional planning effort in the national and State plans has to be simultaneously made with specific objectives i.e. within the framework of a sectoral plan and strategies relating to social and economic goals in planning.

4. Regional imbalances while they are measured with the help of economic and social indicators of development, they can and should also be identified and evaluated in the regional physical plan. This is where the gap exists between regional physical plans and regional economic plans as well. The following features of the physical spatial dimensions of a region indicate the tendency towards balance or imbalances in development.

(i) Agricultural Land Use:

Increase in productivity per acre by value terms would tend to be uniform in the entire cultivated area through a relatively homogeneous cropping pattern. This minimises the disparities in income between cultivators of small holdings. The other impact of such a situation is on the

growth of some centrally situated villages as the market towns which would be sustained by the local population and the production base. There are clear evidences of growing spacialisation of the regional economy which bring with it developments of social and community interest in the region. In contrast there are tendencies - paradoxical as it would appear - for imbalanced development in some growing agricultural regions where the rural urban disparities are increasing as a result of the preference of cultivators with large surpluses to sustain a market town of a higher rank with better facilities situated beyond the normal range of movement of the villagers to the nearest place for their transactions. This distorts the spatial regularity in the development of a system of human settlements as hierarchic nodal centres. The distortious could be measured. Normally greater the distortion in the nodal heirarchy more acute is the problem of regional imbalance. These aspects of regional development and disparities cannot be perceived in the regional plans of State and inter-state magnitude at the national level.

(ii) <u>Industries</u>: Sectoral imbalances in development within regions characterised by low levels of secondary and tertiary activities in respect of their contribution to regional income, employment and industrial products, their spatial configeration within regions might accentuate of regional imbalances within. It is here that the

strategy of the development of growth-centres and measures of decentralisation/dispersal of industries of national and regional magnitude have to be co-ordinated using the spatial and locational patterns of the regional economies as the basis.

(iii) <u>Settlement - environment relationship</u>

Regional imbalances in development often result due to a lack of appreciation of the ecological basis of the regions' existing level of development and the norms of future development. These are reflected in the lack of spread effect of certain developments within regions, unconformity of land uses and the emergence of new problems of land and water use, conservation etc.

The foregoing account brings out the importance and relevance of regional planning of a multi-level nature in which the problems and policy issues of regional imbalances overlap cutting across the present organisational set-up and the procedure of planning. It is hoped that the issues raised in this paper would provide some basis for the clarification of problems of regional imbalances in the discussions on agriculture industry, and social aspects of development.

Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(With special reference to Industry)

March 3 & 4, 1972

"REGIONAL PLANNING AS A TOOL TO OVERCOME REGIONAL IMBALANCES"

By

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REGIONAL PLANNING AS A TOOL TO
OVERCOME REGIONAL IMBALANCES:

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Balanced Regional Development has been an important policy objective in India since the beginning of the planning era, and finds a pride of place in the Industrial Policy Resolution of 1956 and the Three Plan documents. But like many other objectives in the economic sphere, it has not been possible to achieve much in this direction on account of the absence of any concrete measures to implement the policy. The result has been that regional disparities have widened; the rich regions have become richer; the poorer and backward areas continue to be in the same state if not worse; and regionalimbalances have become accentuated leading to economic distress and political crises.

The normal operation of economic forces would be always overwhelmingly weighted in favour of areas which were already developed and they would continue to get an increasing share of country's industrial prosperity leading to substantial differtia in the development rate standard of living and investment. Regional imbalances and lopsided growth are not conducive to economic stability and may well result in under-utilisation or even nonutilisation of natural and human resources and in that process deny the common man his natural heritage in the country

share of prosperity. The idea of balanced regional development has been mooted as a corrective process to even out the differences in the degree of economic development in the different parts of the country. Such differences are manifest in per capita income, employment pattern, living standards, household expenditure, extent of savings, rate of capital formation, growth rates in productive sectors, education and social progress.

Some confusion has arisen between the concept of balanced growth and the objectives of balanced regional development. Balanced growth essentially refers to a single economic system with its different components of development Viz., agriculture, industry, transport or services. The balanced growth stresses the need for different parts of such an economic system to remain in step with one another to avoid supply difficulties. Industry must not get too far ahead of agriculture; basic facilities in transport, power, water supply etc. should be in adequate supply to support and stimulate the growth of industry, and so on. Where such a balance is not established it has been argued that those factors which have developed ahead of others must end in failure. A supposition of this type would lead to the inevitable conclusion that it is necessary for development to start on all fronts at one and the same time and that the various factors will be each other's clients through the demand and supply patterns established by the workers, employees and

owners. This theory of balanced growth has not found general acceptance and on account of the "dynamic disequilibrium" which development requires as a precondition, some sector will be always ahead of others and may even function as "leading sectors" and at no time would it really be possible for a simultaneous advance on all fronts to take place. This is especially so in a developing economy where there are neither the investment resources nor man power nor the skills to make such simultaneous and attack on all fronts; thus developing countries must need to accept the concept of the leading sector and the following sectors; however, it is important that at any one time disparities in the developments of the different sectors should not be so great as to lead to adverse reactions on them. For instance if industry alone develops and agriculture does not follow it or remains too far behind, optimisation of investments cannot take place with the resultant weaknesses in the economy and waste of resources. Similarly agricultural sector cannot outstrip industrial development on account of the needs which agriculture must have in the form of fertilisers, agricultural implements, pumps, and so on. In actual practice, therefore, the idea of balanced growth is followed with the gaps between different sectors being kept within such limits as to minimise adverse reactions on one another.

Balanced regional development however has totally a

different approach. This essentially deals with the difference in the level of economy achieved in different parts of a country or a big region and the disparities which give rise to stresses and strains in both economic and political fields. The existence of backward areas in a country are always a problem for the economy as whole and the body-politic. Such disparities arise on account of natural and sanctions man made reasons and once they are there, they get accentuated, as higher level of development always attracts more activities on account of the obvious advantages and a natural attraction which the activities will receive by being located in areas which are already advanced. Thus once the disparity is established, it will continue to widen unless corrective steps are instituted through economic and fiscal measures.

Balanced regional development and dispersal of economic activities are closely interrelated. Growth diversification economic activities in under-developed areas can take place only if the required infrastructure is provided followed by sufficitly high level development of natural resources. Yet regional balance does not conceive at any stage, reduction in the rate as a depressant for economic development but mainly as a promoter of economic development in backward areas at a rate fast than more, developed areas so as to make the former attain the required levels envisaged by national policies and goals with the shortest possible time.

The reasons for the disparities in economic levels of different areas may be stated to be three namely; (i) historic growth based on natural advantages such as in the case of Calcutta and Bombay (ii) non-uniform distribution of natural resources, for example the occurrence of coal and iron deposi and (iii) high concentration of resources as in the case of the coal-steel belt or Goar. These factors have caused some a to get a head on start in industrial development and once industrialisation has taken place they have attracted more and more industries. Areas with little or no resources have languished and without an initial impetus towards economic growth they have continued to stagnate and the gap has become wider and wider.

Thus the disparities that have develped are mainly owing to a process of normal economic forces exploitaing the resource advantages of each area. The normal operation of economic forces as mentioned earlier will tend to develop those areas where advantages are readily available in preference to areas where such advantages have not been built up as yet or not available at all. Therefore, in talking about minimisation of disparities, it will be necessary to consider as to how and to what extent they can be minimised without adversely affecting the process of economic growth. Minimisation of disparities cannot mean a straight transfer of the fruits of prosperity from a resource rich area to a resource poor area. Such transfers ca

only be temporary; the producing area will continue to produce and the consuming area will continue to consume with no chance of an even-exchange. This will tend to emphasize the disparity and perhaps may even widen it further.

If on the other hand, the minimisation of disparity is interpreted as establishing manufacturing or other activities in those areas where there is no adequate resource base, then the goal of economic efficiency, necessary and essential for the country's progress will be jeopardised. Production processes cannot be subjected to uneconomic operational situations such as raw materials or markets or both. At the same time social equity demands that areas which do not have the facility for accommodating productive activities should not be deprived permanently of the benefit of prosperity arising from industrial production. Thus we have here apparently a conflict between the goals of Economic Efficiency on the one hand and goals of Social Equity on the other.

It has been stated earlier that the natural resources are not uniformally distribution in the country and according to the present administrative boundaries, there are areas which have little or no resources and there are areas which have an abundance of them. Areas with high concentration of resources are bound to achieve a level of economic prosperity far higher than the country's average. Areas which have little

or no resources cannot attain that level unless development in the resource rich areas are deliberately slowed down and some resources are transferred to the resource poor areas for inducing production. This will affect production efficiency and a loss of opportunity for the nation as a whole. Therefore, such balancing or reduction in disparities can only be spoken of in the context of an average level of economic development of the entire country and the task of bringing areas which are below this average economical level as nearly as possible to that level. Besides, the average economic development level of the country may be well below, the minimum which the people aspire to establich for themselves, in which case, the task of balancing should refer to bringing all areas at least upto that minimum level (See Fig.1). For this purpose the area must have the necessary resources within itself.

According to this concept, the task of balancing can be conceived and achieved only amongst areas having adequate or nearly adequate development potential to achieve the average level of economic growth which is aimed at. Pas experience has shown that attempts to achieve a regional balance by mere distribution of new industrial and other projects have not been successful. Although a high proportion of investment in basic industries has gone into the tribal districts of Bihar, Madhya Pradesh and Orissa, the level of economic development

in those areas continues to be much lower than the national average. What is really necessary is the organisation of economic activities at all levels, primary, secondary and tertiary interacting with one another so as to produce an aggregate growth rate which will help to remove the deficiencies in the area. The growth rate that can be achieved in each area will depend upon the resource capability of that area; further a satisfactory organisation of economic activity requires a resource base wide enough and adequate to support the activity in each sector. Therefore, if balanced regional development consistent with economic efficiency and equality in economic opportunity is to be achieved, then it has to have as its primary basis, areas or regions which have the necessary minimum resources for supporting and sustaining development of a magnitude commensurate with the primary needs of that area or region.

The present administrative boundaries do not offer such a basis and it is necessary to conceive the division of this country into a set of areas or regions having the necessary minimum resource potential. Such a concept will lead to the areas rich in one type of r source being linked up with area having complementary resources or even resource poor areas and the benefits of activity in the former will flow into the latter. There will also come into existence gradually intra-

flow of goods and services, inter-dependence and complementarity of resources amongst the different parts as each such area of region.

Such regions - we may call them "planning regions" as they are mainly for the purpose of translating economic and social planning in terms of physical planning - must have within them the primary requirements for generating economic activities; these are (1) land. (2) raw materials for industrial development, and (3) power. These three principal factors will enable each planning region to achieve a degree of self-sufficiency in food, an employment potential in the agricultural and non-agricultural sectors to meet the needs of the region's population and a power base which will serve the developmental needs of both agriculture and industry. Thus the region will have the basic elements to achieve a degree of economic viability. In addition the region as it develops will be in a position to exchange its surplus of manufactured products as well as raw materials with similar regions to obtain other requirements necessary to ensure a minimum standard of living for the population of the region. Such an areal approach will provide the basis for attempting balanced regional development, by various means such as inducing differential rates of growth, preferences in regard to the industrial locations, and special concessions and incentives.

This concept of planning regions which may across state boundaries and in some cases even district boundaries need not come into conflict with established boundaries of the state, as the state boundaries will continue to serve as administrative units for purposes of implementation of policies and programmes drawn up within a regional framework of the type described above. In fact, even as it is, within a stage today different areas get different treatment depending upon their natural endowments, the level of activities and needs; the concept of evolving regions which have a minimum developmental potential of a pattern and type will enable parallel and inter-related actions to be taken by adjacent states in the different parts of the region with which they are concerned so as to exploit fully the inter-dependent and complementarity character of the resources in t e region for its own benefit.

Such a kind of regional economic organisation, although it may appear to tend towards a closed economy, will not really be so. Each planning region is capable of some production for its own consumption as well as for exchange with other planning regions which it is free to do. Further there is no bar on the region establishing exchange of even those products primarily meant for its own consumption. The only requirement that is being ensured is that the region has the necessary resource capability to discharge these two basic functions. It is obvious that economic efficiency is highest then production is able

to meet self-concumption to the maximum extent without ignoring factors that determine production costs. This helps to minimise investment on transport and distributary services. To that extent an apparent closed economy is not only desirable but also necessary if natural resources have to be exploited. A clear example of this type of approach is that of Food-Zones.

An exercise for dividing the country into a set of planning regions has been carried out, and according to this the country has been divided into a number of planning regions at the macro and meso levels. These proposals are primarily based upon qualitative data; studies are now under way to check quantitatively the resource potential for each region so that further adjustment can be made wherever needed:

The macro regions conceived in this scheme-are larger viable units meeting the requirementsof regional planning and decision-making in regard to majority of the issues involved in regional development. But in certain selected areas of infra-structural development such as irrigation, power and transport development, inter-regional co-ordination may still be necessary. Such co-ordination is proposed to be secured at a supra-macro level, perhaps for a group of macro-regions. It must, however, be noted that such supra-macro regions are conceivable only for the limited purpose of co-ordinating the efficient production and utilisation of certain selected

resources and they do not affect the comprehensive character of the macro-regions.

The meso regions are sub-divisions of macro-regions. They form the primary economic units for the purpose of planning. This main objective of delineating meso-regions is to carve out viable areal units for effective exploitation, conservation and utilisation of resources. Economic viability at the minimum level is the primary consideration for grouping areas to form meso-regions. Such economic viability implies that a meso region has adequate resource potential to establish production patterns sufficient to meet the emlpoyment needs of the people in that unit over a period of time and at the same time produce enough food or offer goods which can be exchanged for food to meet minimum consumption needs. Economic viability could be tested by examining the per capita income of the component units (districts). The economic viability of the meso regions have been tested by examining indicators like per capita usable land, productivity index and manufacturing potential.

The resource pattern of the meso region may be such as to lend itself for specialisation in some major means of production. This can be achieved by grouping areas characterised by a certain association of resources and complementary characteristics or tied by extensive intra-areal activity or flows. For example, two physically separated tracts, but with inter-related

economies, existing close to each other have been united to form one meso unit. Thus the coastal plain of Kerala has been combined with the sub-montane plantation districts, as their resources will mutually supplement and complement each other. Similarly, a structurally backward area has been combined with a relatively prosperous tract, so that the resulting unit will have a strong economic base. For example, the Telangana area has been combined with the Krishna Godavari Coastal Plains to give more economic stability to the former, and find a ready market for the latter.

The proposed Planning regions do not equally divide the resources of the country but they attempt to procure for each region the basic minimum requirements for economic and social development on the basis of the population of that region. The criteria for these planning regions have been so far physical and economic; in addition at the Macro level a degre of ecological balance, is sought to be attained. The ecological balance attempts to secure that natural cycles eara completed without introducing disturbances that may cause breakdown of the natural systems and come in the way of utilising natural and human resources in the best possible way.

In a planning region of this type, it will be possible to provide the required infrastructure in terms of roads, railways, power lines, water supply and an urban social organisation which servés both agriculture and industry. Where such infrastruture already exists to some extent, it can be extended to cover all parts of that region; where it does not exist, priorities may be established to provide the needed infrastructure for promotion of various activities.

Further in order to accelerate the development of a backward region so that it can catch up with other developed retions in the country, central and state agencies may introduce a system of incentives for industrial development as also a system of location control which will enable appropriate type of industries to get located in the backward areas. Thus by the promotion of the development of infrastructure facikities and a system of incentives and locational control, disparities between one planning region and the other planning region in achieving a minimum level of prosperity can be progressively reduced, achieving utilitmately the objective of balanced regional development.

The actual process of achieving the objectives is by means of a set of long term and short term plans and programmes for each of the regions sector-wise, but inter-related and in-

tegrated. Such plans i.e., Regional Development Plans will naturally take into account important development policies and programmes and arrange for their translation into action programmes so that they would be implemented by concerned Central and State agencies. Thus a series of regional Plans covering the entire country can alone ultimately help to set right the disparities in developmental levels and assure a future rate of growth which progressively puts each region on an optimal operational course ensuring both economic efficiency and social equity.

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Discussion paper

SEMINAR ON
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"REGIONAL IMBALANCES AND REGIONAL PLANNING : A REVIEW OF REGIONAL PLANNING EFFORTS IN INDIA"

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REGIONAL IMBALANCES AND REGIONAL PLANNING : A REVIEW OF REGIONAL PLANNING EFFORTS IN INDIA

1. Introduction:

Regional problems in the country have attracted a good deal of attention in recent years both at National and State Levels. The absence of the space element in our National Five Year Plans has been repeatedly commented upon by a number of critics (John P. Lewis[1], Chakarvarti[2]). The increased attention paid to this problem now may be ascribed to the cropping up of regional imbalances in the country during the process of the planned development, which in some cases have led to political unrest and agitations. It is not altogether correct to say that there has been no attention at all to regional problems earlier. In fact, a close study of the evolution of planning thought in this country as well as academic discussions of the problem does not justify such a criticism. At the operational level too, there have been some isolated efforts at regional planning both at the national and state levels. The object of this paper is to present a cogent review of the various developments in the field of regional planning so as to serve both as a basis of evaluation and also as a guide to outline the next steps to be taken in this regard.

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1. John P. Lewis: Quiet Crisis in India, Brookings Research Institution, 1962.
2. Chakarvarti S.: A Note on the Structure of Multi-level Planning for India, Planning Commission, 1971.

2. A Review of Planning Thought bearing on the Problem of Regional Imbalances.

Prior to the achievement of independence, reference to regional planning if at all was confined only to academic discussions. Mention in this context may be made of the references contained in the books written by Visveswarayya[1] and Balakrishna[2]). In the immediate post war period when a number of multi-purpose projects were taken up, the idea of regional development with a view to utilising the benefits from the multi-purpose projects more evenly over the entire region held sway. The establishment of the Damodar Valley Corporation entrusted with the task of developing the valley on the lines of the T.V.A. experience in U.S.A. illustrates this thinking. Another academic study undertaken in India was as early as 1956 by the Indian Statistical Institute. It was, the Regional Survey of Mysore State[3] by Learmonth, Prakasa Rao and Bhatt which is a pioneering survey of this type introducing the concept of regional approach to planning and employing statistical and cartographic techniques. The first Five Year Plan could not devote much attention to this problem because of the urgent priorities to be accorded to certain sectors of the economy which had to be tackled expeditiously. But the subsequent plan documents contain specific reference to this problem. Although the main emphasis in the Five Year Plans is on sectoral planning both during the formulation of sectoral plans and their implementation. It is, therefore, true to say that even though regional planning per-se on a country wide scale has not yet been attempted in the country, yet a regional approach to planning in the various sectors

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1. Vesveswarayya:
2. Balakrishna, R. : Regional Planning in India, 1948.
3. Learmonth, A.T.A. & Bhatt, L.S. : An Atlas of Resources of Mysore State and a Regional Synthesis.

of the economy has been emphasised from time to time. The following observations from our Five Year documents are worth quoting:

1. "In any comprehensive plan of development, it is automatic that the special needs of the less developed areas should receive due attention. The pattern of investment should be so devised as to lead to balanced regional development".[1]

2. "Balanced development of different parts of the country extension of the benefit of economic progress to the less developed regions and widespread diffusion of industries are among the major aims of planned development".[2]

3. "Balanced regional development and dispersal of economic activity are closely inter-related. Growth and diversification of economic activity in an under developed area can take place only if the infrustructure required for this is provided in an adequate manner".[3]

4. "In order that industrialisation may benefit the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and coordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living".[4]

Inspite of the above policy statements at the national level it is apparent that no concrete steps were taken upto the beginning of the Fourth Five Year Plan (1969) to consciously promote regional planning

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1. Second Five Year Plan, 1956-61.
2. Third Five Year Plan, 1961-66.
3. Fourth Five Year Plan Draft, 1969-74.
4. Industrial Policy Resolution of 1956.

as a tool to correct the regional imbalances in the country. But note must be taken of some efforts made in urban planning programmes in the country which also bear on regional planning aspects. The Delhi Master Plan was the first promising attempt in this connection. This was followed during the Third Plan by a Centrally sponsored scheme for the preparation of Master Plans for important cities and towns in the country[1]. In fact, it was the town planning effort in the country that provided the major thrust for regional planning projects. A more detailed reference to this aspect is made later.

The planning process in the country involves at the national level crucial decision-making about the allocation of resources to the states. Although some criteria were followed for making these allocations in which note was taken of the relatively backward states in the country,

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1. The Central Regional and Urban Planning Organisation can assist State Governments and organisations concerned with the establishment of new towns, in the preparation of master plans and in formulating suitable urban and regional development policies:

(a) metropolitan cities, State capitals and porttowns. Ahmedabad, Bangalore, Bhopal, Cochin, Delhi. (Metropolitan region) Greater Bombay, Greater Calcutta, Hyderabad-Secundrabad, Jaipur, Kandla, Kanpur, Lucknow, Madras, Patna, Poona, Shillong, Srinagar, Varanasi, Visakhapatnam & Trivandrum.

(b) industrial centres. Allahabad, Asanwol, Barauni, Bhadravarti, Bhilai, Bokaro, Chittaranjan, Coimbatore, Dehri-on-sone, Dhanbad, Digboi, Durgapur, Gauhati, Gorakhpur, Deoria, Guntur, Jamshedpur, Kothagudam, Mirzapur, Moghulsarai, Nangal, Panvel, Ranchi, Rishikesh, Hardwar, Rourkela, Sindri, Tinsukhia, Vijayawada & Warangal.

(c) resource regions. Bhakra-Nangal area, Damodar Valley, Dandakarnya, Rajasthan Canal Area and Rihand area.

the extent of regional considerations that went into the actual decision was never made explicit in the First, Second or even Third Five Year Plan documents. It must be noted in this connection that the Third Five Year Plan devoted a whole chapter to 'Balanced Regional Development' but specified no concrete formula for this. This was a cause for great dissatisfaction in the States which led to some changes in our planning approach since the Fourth Five Year Plan. As a result, the Planning Commission, laid down certain criteria for the allocation of central assistance to state governments.

The Fourth Five Year Plan has stipulated that after providing for the requirement of the states of Assam, Nagaland and Jammu and Kashmir, the central assistance to the remaining states be distributed to the extent of 60% on the basis of their population, 10% on the basis of tax effort in relation to per capita income, the another 10% to be allotted in proportion to the commitments in respect of the continuing major irrigation and power projects. The remaining 10%, it was decided should be distributed among the states so as to assist them in tackling certain special problems, like those relating to metropolitan areas, floods, chronically drought affected areas and tribal areas.

From the above trends, it may be seen that the central allocation to the State Governments now gives a definite weightage to backward and problem areas. This is a distinct improvement over the earlier plans, but still no definite regional policies for development at the national level exist such as is being attempted in many other countries.

Besides the allocation formula adopted at the national level, other measures aiming at a reduction of regional imbalances in the country as adopted in the Fourth Five Year Plan are:

(i) Location of central projects; and

(ii) Adjustments in procedures and policies of financial and other institutions with a view to encouraging private investment.

The policy of location of central industrial projects in the public sector in the backward areas as a measure to reduce imbalances was accepted even before the commencement of the Fourth Five Year Plan. Following the recommendations of Working Group on Identification of Backward Areas[1], and Fiscal and Financial Incentives[2] for starting Industries in Backward Areas certain promotional measures have been adopted to attract industries. One such measure is a 10% subsidy for location of private industrial projects in backward areas whose capital investment does not exceed Rs. 50 lakhs. Further transport subsidy in shape of 50% of the transport cost for the erection of plants and transportation of raw materials has also been introduced. Incentives measures provided by the State Governments for attracting industries are generally speaking applicable to all parts of the State's alike. But in the case of Maharashtra the incentive measures have been so framed as to provide disincentives to concentration of industries in the Bombay Metropolitan Region and to favour dispersal in other parts of the State.

1. Planning Commission, Report of the Working Group, Identification of Backward Areas, February, 1969.
2. Ministry of Industrial Development, Internal Trade and Company Affairs, Government of India, Working Group Report on Fiscal and Financial Incentives for starting Industries in Backward Areas, April, 1969.

The Planning Commission has since the Second Five Year Plan been stressing the importance of carefully drawn up plans at the micro-level and has been urging the State Governments, to draw up their district plans on scientific basis. During the Fourth Plan, more attention has been paid to this problem particularly, in the backward districts of the country. In pursuance of a decision of the National Development Council, 209 industrially backward districts in the various States have been selcted for receiving concessional finance in the form of low interest loans with longer amortisation period for repayment. This is available through public sector financial institutions for starting small and medium industrial projects in the industrially backward areas. Another measure intended to help the backward areas is the setting up of a 'Rural Electrification Corporation' for advancing loans for financing rural electrification programmes in backward areas on favourable terms.

Among the other policy instruments devised at the national level mention may be made of the licensing system and the method of providing financial and fiscal incentives for starting industries in backward areas.

The Licensing systen which was conceived as a policy to manupulate the location of industrial projects, however, did not achieve this purpose as there were no regional plans available to guide decision-making in this regard.[1] The provision of fiscal and financial incentives for starting industries in backward areas is limited to two districts in back-

1. Out of 1,25,000 registered small scale units in the entire country at the end of 1968, more than 80,000 units were located in five states, viz.: Delhi, Tamil Nadu, Maharashtra, Punjab and West Bengal. Even in these five states, the concentration of small scale units was conpicuous in the metropolitan areas like Delhi, Madras, Bombay and Calcutta.

ward states and to one district in the other states. The efficiency of these measures remains to be seen. For this purpose the backward states and backward districts within the states have been identified.

3. City and Regional Planning:

Having outlined the few specific measures that have been attempted at the national level mainly intended to correct regional imbalcnes, we may now direct our attention to the few specific attempts made in city regional planning as well as Inter-State and intra-state regional planning in the country.

All the Metropolitan/urban plans that are being attempted in the country adopt a regional approach and a few fairly comprehensive city Regional Plans like the Delhi Master Plan have been prepared so far.[1] Details about some metropolitan plans are given below:-

(i) The Basic Development Plan for Calcutta[2] provides the development proposals for the Calcutta Metropolitan District (including Calcutta, Howrah and other municipalities with an area of 433 sq.miles). This planning was conceived in the context of the developments taking place in a wide area comprising of 3 states, viz.: West Bengal, Bihar and Orissa. As a sequel to the preparation of the Basic Development Plan for Calcutta Metropolitan Region, planning cells were set up separately to prepare development plans for Asansol-Durgapur[3], Siliguri[4] and Haldia Port Region.[5]

(ii) The Bombay Metropolitan Regional Plan[6] prepared by the Metropolitan Planning Board comprises an area of 3965 sq. kms. and a population of 53 lakhs in 1961.

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1. "Preparation of Development Plans for 72 urban centres were undertaken" - Fourth Five Year Plan, p. 398.
2. Calcutta Metropolitan Planning Organisation, Department of Planning Basic Development Plan for the Calcutta Metropolitan District 1966-1986. (1966).
3. Government of West Bengal : Interim Development Plan - Asansol-Durgapur. (April, 1966).
4. Interim Development Plan, Siliguri (October, 1965).
5. Development and Planning Department, Government of West Bengal - Haldia Region - Interim Strategy Plan.
6. Bombay Metropolitan Regional Planning Board - Regional Plan for Bombay Metropolitan Region. (1970-91).

(iii) The Ahmedabad City Regional Plan.

(iv) The Plan for Madras City and its envirous.

(v) There a number of other City Regional Plan viz.; (Trivandrum, Bangalore, Lucknow, Kanpur, Bhopal, etc.) which are in various stages of preparation.

4. Regional Planning at Inter-State Level:

The need for co-ordinating certain developments cutting across state boundaries was recognised as early as 1948 when a mighty multi-purpose project the DVC was conceived. It was originally conceived as a comprehensive effort in regional planning and 'diagoinstic surveys' were initiated preparatory to the drawing up of a comprehensive regional plan for that area. But unfortunately this effort stopped with the surveys only, and the planning exercise was not pursued seriously. Despite this failure, the DVC experiment served to focus some attention to the regional planning problem and looking in retrospect one may perhaps ascribe some of its set-backs[1] to the absence of a spatial planning effort.

Another major developmental effort in the country - The Dardakaranya experiment - also started on hopeful lines, but has been going about its task without a developmental frame of reference. The necessity for drawing up a master plan of development for the region of rehabilitation has been stressed time and again by the Parliament's Organisation (Government of India) is now assisting this authority in the preparation of such a plan.

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1. During the course of its working the DVC experiment received a number of set-backs on account of the non-co-operation of the participating states with the result that today it is only a project concerned mainly with generation and distribution of power.

planning exercise was undertaken by the Town and Country Planning Organisation in collaboration with the Rajasthan Canal Board and the State Government of Rajasthan. This plan provided the guidelines for settlement planning for this area. The Rajasthan Canal has not yet fully materialised. But as the canal is being extended from time to time the actual physical plans for the common areas are being drawn up.

It is since the inception of the Fourth Five Year Plan that considerable strides have been made in regional planning efforts at state level. For this purpose, some state, Governments have already set up suitable machinery for planning and development at regional levels. In Andhra Pradesh for instance, the development of the whole state has been visualised in terms of three different Regions, viz.: Telengana, Rayalaseema and Coastal Andhra and a plan for each is under preparation. A Planning and Development Board was constituted for the Rayalaseem Region in the year 1969 and this Board has been making studies in this connection. A comprehensive Resource[1] Inventory and analysis to bring out the board features of the economy has been completed. Currently a 15 year plan for the area is under preparation. For the Telengana Region, a Development Committee has been set up which is making the requisite studies for a regional plan and the Coastal Andhra also studies are understood to be under way.

The State of Maharashtra appears to have made significant headway towards plan preparation and implementation at regional level. Development Corporations have been set up for Marathwada, Vidarbha, Konkan and West

1. Planning and Development of Backward Regions - A Case Study of Rayalaseema, Vol. I - Resource Inventory.

Maharashtra covering the entire state. It is understood that some studies in this connection are being made by the Gokhale Institute of Politics and Economics.

The State of Tamil Nadu has recently re-oriented its Town and Country Planning activities on a regional basis with a view to preparing integrated regional plans for different areas in the State. For this purpose eight viable planning regions[1] have been demarcated. In order to give effect to this proposal, the creation of the State Town and Country Planning Board, Regional Planning Authorities, Local Planning Authorities and New Town Development Authorities are being contemplated and the Town and Country Planning Act is being amended for this purpose.

In the wake of certain new developments like the Tungabhadra Irrigation project and the proposed Vijayanagar Steel Plant near Hospet (Mysore), the State Government of Mysore is proposing to prepare a comprehensive regional development for this area. Similarly in other states also, considerable thinking is going on to prepare regional plans at state levels.

6. <u>District Planning:</u>

District planning has been advocated vigorously since the Second Five Year Plan and the Planning Commission has been persuading the State Governments to organise this work on a sound footing. Barring perhaps a few efforts, like the plans for Wardha and Karnal districts, there do

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1. Rural Development and Local Administrative Department, Government of Tamil Nadu, Regional Planning for Tamil Nadu, November, 1969.

not appear to be many examples, where district planning could be considered to have made much headway. This is because planning at the district level suffers from serious weaknesses; one is the lack of a suitable planning machinery at the district level equipped with qualified personnel to carry out the planning tasks. A more important weakness is the inadequacies of the district as a viable planning area. The size of the districts and their resource contents vary and it is not possible to balance investments with returns and experience has indicated that aggregation of district plans at the State level resulted in demands for enormous investments unmatched by state's resources. Since the Fourth Five Year Plan, the Planning Commission has been making vigorous attempts to promote the formulation of District Plans more scientifically. But this effort is limited to the backward districts only.

Inspite of all that has been attempted on district planning, the fact remains that the district plans prepared so far have no spatial strategies and the physical dimensions are very much lacking. A much more regerous analysis and research is indicated in this direction. Some academic attempts, like the "Study of the Muzaffarnagar District"[1] in Uttar Pradesh by the Delhi School of Economics, provide some guidelines to the kind of analytical approaches that may be used in this connection.

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1. This is only a research inestigation limited to an analysis of growth promoting and growth retarding factors in the district and is not a District Plan.

7. Need for a more systematic approach to regional planning:

From the foregoing review of the various efforts made particularly during the last 20 years, we can see that considerable consciousness on regional problems has been generated and a few sporadic efforts aiming at regional planning have also emerged. But, it must be noted that still, no definite policy statement to place the entire development planning in the country on regional lines has been made at the national level and also no thinking has been directed aiming at suitable operational adjustments to implement such a decision. One of the pre-requisites for such a change in approach in our present day planning effort is the division of the country in to suitable "Planning Regions". Some thought has already been given to this problem by a number of researchers (Prakasa Rao,[1] Bhat Miss Sen Gupta[2] and Nath[3]). The various regional schemes proposed by these authors differe in basis and context. The work of the Town and Country Planning Organisation[4] has sought to reconcile the different approaches and to evolve a scheme on a common basis by enunciating the basic postulates for a planning region. The scheme has outlined 13 macro and 36 meso regions and has also suggested further divisions of meso regions into micro-regions.

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1. Prakasa Rao & Bhat: A Regional Framework for Resource Development, Bombay, Geographical Magazine No. 1 (1964).
2. Sen Gupta P: Economic Regionalisation of India : Problems and Approaches. Census of India 1961 - Monograph series Vol. 1 No. 8, New Delhi, 1968.
3. Nath, V.: Resource Development Regions and Division of India, New Delhi, 1965.
4. Planning Regions of India by Town and Country Planning Organisation, New Delhi, 1969.

The next steps in planning perhaps would be to launch, on systematic lines, a country-wide attempt at regional planning using an acceptable framework of regions. Indeed, all our attempts so far have hopefully converged in this direction.

DISCUSSION PAPER

SEMINAR ON
"REGIONAL IMBALANCES – THE PROBLEMS AND POLICIES"
(with Special reference to Industries)
March 3 & 4, 1972

ADMINISTRATIVE PROBLEMS OF REGIONAL PLANNING

ADMINISTRATIVE PROBLEMS OF REGIONAL PLANNING AND DEVELOPMENT

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"ADMINISTRATIVE PROBLEMS OF REGIONAL PLANNING & DEVELOPMENT"

- By Deva Raj

Regional development has long been looked upon as one of the means for the realisation of the broad objectives of reduction of inequalities. Even the First Five-Year Plan took note of regional imbalances although it was felt that "the need to complete projects already in hand have left little scope for initiating new schemes for the specific purpose of correcting regional disparities".[1] The Second Plan referred[2] to "another type of disparities" in the context of inequalities, namely disparities in the level of development which must be kept in view in a comprehensive plan of development which must be kept in view in a comprehensive plan of development "so that the entire pattern of investment is adapted to the securing of balanced regional development in the country."

Policies for Balanced Regional Development

2. The Government of India in their broad policy announcement on industrial development in April, 1948 and later the Industries (Development and Regulation) Act, 1951 laid down that while granting licences the appropriate authority could prescribe conditions regarding location of industrial undertakings. The Industrial Policy Resolution of April, 1956 explicitly laid down that "In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in the levels of development, between

(1) The First Five Year Plan - A Draft Outline - Planning Commission, 1951. page 43.
(2) Second Five Year Plan - A Draft Outline - 1956, Page 19.

different regional should be progressively reduced". Even so, the problem of regional imbalances came to be felt more acutely by the beginning of the sixties and it was apparent that industries tend to gravitate towards major urban centres with some infrastructure and economies of location. Another dimension was added; that of over-urbanisation of the fast growing cities and metro-politan centres. The Census of 1961, while showing a slowing down of over-all urban growth (27% as against 41% in 1941-51), revealed that it was the larger cities that were attracting far more people than they could cater for in terms of services, housing facilities and social overheads. Only 107 Class I cities out of a total of 2700 urban places accounted for 44% of the total urban population. And even among them major industrial concentration was taking place in half a dozen metropolitan areas. The Third Five-Year Plan devoted a whole chapter to "Balanced Regional Development".[3] Discussing the urban challenge and growing strain on municipal administration, it was suggested that "In redeveloping existing cities and building up new towns; it is of the utmost importance that the regional approach should be followed".[4] Pleading for a balanced development between rural and urban areas, the Plan document pronounced that "As far as possible, new industries should be established away from large and congested cities and in planning of large industries, the concept of region should be adopted".[5] There has been a definite demand for developing counter-magnets to relieve

(3) Third Five-Year Plan, Planning Commission, 1961, Chapter IX.
(4) Ibid. page 692.
(5) Ibid. - page 689.

pressure on the metro-politan centres, which are constantly threatened with serious breakdown in municipal services.

3. All these policy declarations and unequivocal pronoouncements and even some conscious efforts to direct investment to backward areas have, however, failed to bring about the desired results. The cities with a population of one lakh, which in 1971 accounted for 52.4 per cent of the total urban population, attracted two-thirds of all the industrial licenses. About 40 per cent went to about 8 cities which have a population of a million or over. All the State Governments encouraged the establishment of industrial estates, which failed to make good unless they were located in or near major cities. As regards small scale units, "out of 1,25,000 registered in the entire country at the end of 1968, more than 80,000 were located in five States viz., Delhi, Tamil Nadu, Maharashtra, Punjab and West Bengal. Even in these five States the concentration of small scale units is conspicusous in the metropolitan areas like Delhi, Madras, Bombay and Calcutta."[6] The Dutt Committee on Industrial Licensing also found that between 1956 and 1966, 60 per cent of the licences applied for and approved went to the more developed States of Maharashtra, West Bengal, Tamil Nadu and Gujarat. The difficulty is that licence sanctioning authority can refuse to grant licenses for particular areas or locations but it cannot postively promote licensing to correct disparities in areas for which applications are scarce.

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6. Report of the Working Group on Fiscal and Financial Incentives for starting industries in Backward Areas - Ministry of Industrial Development, April, 1969, page 6.

There has no doubt been a conscous attempt to direct public investment to some backward areas. But - "even the establishment of a number of large scale projects in such backward States as Bihar, Madhya Pradesh and Orissa, which account for a significant proportion of Central Government Investment during the three plans period has not helped in substantially developing the economies of these States."[7]

4. The fact of the matter is that the establishment of employment centres and industrial units cannot be brought about in a vacuum or even by offering some financial or other incentives. As the Industrial Policy Resolution of 1956 itself pointed out - "A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas, which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable." The slogan of regional imbalances has merely helped to accentuate the scramble for scarce resources rather than promoting a programme of systematic regional development that would provide the necessary infrastructure, generate economic activity and attract investment. Regionalism today is an essential facet of developmental strategy under which a viable local area is organised for surveys, studies, planning and development with necessary managerial and

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7. Ibid.- page 7.

financial support within the framework of the national plan. In order to give concrete shape to any regional policy, there are three basic requisites: -

(a) an area - identification and delineation of a developmental region;

(b) a plan - based on an interdisciplinary approach linking up physical and spatial aspects with economic and sectoral programme planning; and

(c) an administrative machinery for the area charged with detailed planning and implementation.

Needless to say that an administrative frame can be evolved and can have a meaning only in relation to a physical area for functional planning and development. All the above mentioned factors are essential components of regional administration. Spatial and physical planning and regional administration have not received sufficient consideration in the formulation and implementation of the Five Year-Plans in India.

The Region Concept and Backwardness

5. Any thought of regional administration must at the outset, raise the issue of jurisdictions. What is a region? It appears that while enunciating regional policies, our planners had no clear idea of the regions for which balanced development is desired. In fact the Third Five-Year Plan itself posed the issue in the following words:

"The concept of a 'region' also needs to be defined more clearly. There are regions within States as well as those which extend beyond them and depending on the purpose in view, different concepts may be employed. Within every

> State, there are areas which are more underdeveloped than others. As explained earlier problems of regional development also arise in a variety of other contexts, as for instance, in areas around major projects, areas where new resources are being developed, and metropolitan region."[8]

The emphasis in fact has been on identifying backward areas rather than compact regions with a hierarchy of human settlements that could function as cohesive viable units for development under a regional administration.

6. The first attempt to determine backwardness of an area was made by a Committee on Dispersal of Industries set up in pursuance of a decision taken by the Small Scale Industries Board in April, 1960.[9] The Working Group on the Identification of Backward Areas set up following a decision by the National Development Council at its meeting held on 13th September, 1968, examined in detail the criteria of backwardness and the attempts made to prescribe indicators of levels of development to enable selection of backward regions or areas for encouraging establishment of industries. Such regions or areas could only be identified with reference to States or districts which have an established administrative personality and most States and a vast majority of districts even in relatively better off States would have to be classified as backward. The Working Group did consider the question of "what should be the Unit ' of industrially backward region or area. It was noted that the Committee on Disperaal of Industries had suggested that a 'district' should be considered as the Unit since data on different criteria examined by

8. Op. cit., page 151.
9. Report of Working Group on Identification of Backward Areas - Planning Commission - 1969., page 4.

the Committee was available upto the district level and not below. As far as the availability of data is concerned, the position has not changed much since then. However, since far too large a proportion of the country is industrially backward, it was considered that a large number of districts would qualify to be treated as industrially backward." [10] The Working Group also recognised that even the States that might not be considered backward had only a limited number of industrially developed areas and the rest of the areas were as backward as the several areas of the States that might qualify as industrially backward. The Working Group went on to make the following significant recommendation: -

> "Since the problem of regional imbalances is very widespread, the Working Group would like to emphasise that besides implementation of its recommendations, the regional aspects of development should receive greater attention in location of industrial undertakings in public sector, in the licensing policy and in formulation and implementation of development programmes by the State Governments, specially for provisions of essential infrastructure facilities in such areas."[11]

Regions for Planning and Administration

7. In the process of planning and development over the last two decades, although no conscious attempt was made to demarcate development regions, certain areas have come to be identified as area units for one reason or the other. An attempt is being made to identify such areas or regions in the following paragraphs.

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10. Ibid. page 9-10.
11. Ibid. page 15.

8. . The district has come to be definitely identified as the unit of planning and administration at the micro level. While in the first Plan it was visualised that "it will be possible for the panchayats and other local, regional and functional bodies to participate actively in the preparation of plans,"[12] the Second Five-Year Plan recognised the district to have been rightly described "as the pivot of the structure of democratic planning".[13] Ever since the 'district' has asserted itself, thanks to its strong administrative identity, as the basic unit for economic and sectoral planning as well as plan implementation both for normal and 'intensive' programmes of agriculture, education, development of 'growth cities' and small towns etc. They are also the units of area planning as the apex body of the Panchayat Raj administrative structure.

9. <u>The States</u> are not only the next higher planning and operational units but also constituents of a federal polity. These include fullfledged States and Union Territories. With tremendous variations= in area and population, some of them have population no more than that of half a normal district. They are but <u>micro</u> regions with a state-level administrative structure while the other States occupy a graduated position in the broad scale of '<u>meso</u>' and '<u>macro</u>' regions, each with a unified central administration, producing varying degree of impacts in field operations. It will be appreciated that the intensity

12. Op. cit. page 10
13. Op. cit., page 58.

of Departmental activity in relation to different parts of a State is bound to differ depending on the size of the area of command. Speaking to a Committee of the National Development Council in September, 1968, Member (Industry) of the Planning Commission observed that "ideally speaking, the identification of backward regions would have to be somewhat different from the political boundaries of the States as they are constituted today. But for practical purposes one may have to confine oneself to State's boundaries though in a particular State like, say Uttar Pradesh, it may be necessary to divide the State into more than one region."[14] The fact of the matter is that it is necessary to form both inter-State and intra-State regions and provide them with an effective planning and administrative frame.

10. <u>City and Metropolitan Areas</u> - It was under the growing strains of urbanisation that the Third Five-Year Plan made provision of the 'preparation of detailed Master Plans for urban and regional development".[15] A hundred per cent central assistance was given through the Town & Country Planning Organisation of the Government of India, for planning of metropolitan cities, State capitals, port towns and industrial centres. About 72 cities and towns were covered during this plan period and it was proposed under the Fourth Plan to cover all cities and towns with population of 50,000 and above, although the programme was transferred to the State sector. These urban area plans are in most cases physical and land use and communication plans for cities together with a minimum of the peripheral areas. A number of plans for major cities, however,

14. Annexure IV to Report of Working Group on Identification of Backward Areas - op. cit. page 47.
15. Op. cit., page 692.

embrace a limited metropolitan area such as Master Plans for Bangalore, Madras, Hyderabad, Cochin, Ahmedabad, Poona, Nagpur and few others. The recent Plan for metropolitan Bombay, the plan for Calcutta metropolitan District covering about 36 municipal areas along with rural districts and the Master Plan of Delhi have, however, the character of regional plans. In the case of Delhi, the National Capital Region presents the problems of an inter-State urban complex. Another type of a plan prepared under the scheme covering a mixed rural-urban area has been the Asansol Regional Plan including the Durgapur industrial area, which was developed as a counter-magnet to Calcutta. It was be pertinent to remark here that these physical plans do not bear any relationship with economic plans and in spite of the intention of the Third Plan to bring at least cities of 1,00,000 or over into the national planning process, it has not been possible to integrate these physical plans with the District or State plans. Another serious handicap from which all urban plans have suffered is that with minor exceptions, they are not backed by an over-all administrative machinery. The Calcutta Metropolitan Development Authority (CMDA) set up only towards the end of 1970 is but a halting attempt to provide a coordinating mechanism. In Bombay, the City and Industrial Development Organisation (CIDCO) is an ad hoc attempt to undertake the Twin City Project within the framework of the metropolitan Regional Plan. Delhi is an exception in many ways in so far as the entire Union Territory is within the Master Plan area and there has been some integration between the urban and rural plans executed by a host of authorities. On the other hand no satisfactory

arrangements could be evolved for dealing with problems of development in the parts of the National Capital Region that lie in the adjoining States.

11. Resource Regions - The Damodar Valley Corporation was set up as early as 1948 by an Act of Parliament and is a case of an interstate river valley region.[16] The Third Five-Year Plan also provided for the physical planning of certain resource regions along with city Master Plans. The first Draft Outline of the Fourth Five-Year Plan (1966-71) while discussing regional and urban planning, mentioned that preparation of regional plans were in hand, (besides Calcutta and Delhi) for Gorakhpur-Deoria region, Mirzapur-Rihand, Rishikesh-Haridwar, Ghaziabad-Bulandshar, Kulu-Manali, Dandakaranya, Bhilai, Nyveli, Trivandrum, the Rajasthan Canal and South-East Resource Regions.[17] The last one is an extension of the DVC while others are intra-State. The Town & Country Planning Organisation in the Government of India itself has been preparing detailed plans of some of these regions. But here again in most cases the link with economic plans has not been established. Nor has any administrative frame been worked out.

12. From the above account it would be clear that the concept of the region has been the will-o-the-wisp of our two decades of planning and development. Regional development has remained a

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(17) Fourth Five-Year Plan - A Draft Outline, 1966- page 356.

a popular slogan only with political repercussions. The Districts had a strong administrative frame but the District Plans were no more than a compilation of rural development programmes, which left out the municipal areas as such and there was no attempt at physical and spatial planning either at district or at the State level. The areas for which physical plans were prepared lacked the necessary content of economic and sectoral plans and the administrative machinery to implement them. Wherever it was possible to combine these factors even to a limited degree, some results were achieved as in Delhi, Rishikesh-Haridwar, Rihand, and Durgapur regions. Even there the larger perspectives of regional development have been absent.

13. The need for regional organisation for planning and development arises on the one hand out of the inability of State or Central Governments to deal effectively with problems of planning and development in different urban and rural areas and on the other because there are regional problems that lie beyond the capacity and jurisdictions of the existing local level authorities. The State level departments can have plans for sectoral programmes but cannot at the same time link them up with the local physical and spatial requirements of the various geographic and administrative divisions of the State. "National and State economic development plans and programmes must heavily rely on the details of regional plans. Where adequate regional economic development plans and programmes are lacking, the likelihood of success of national economic development programmes

is decreased and the over-all gains from national investment reduced."[18] The local rural or urban governments all over the the world are looking for higher level regional authorities to handle their common area wide problems of planning and development. What is needed therefore is a regional authority at a level lower than the State Governments that would enable decentralisation from top and above the level of local bodies, which can be enabled to combine and cooperate in matters they cannot handle. There may, however, be some areas that may involve inter-state co-operation.

14. New Units of regional government are emerging in many larger states of Western Europe. In Italy "regioni" which were supposed to have been as long ago as the late 1940s have finally been set up and had their direct elections in 1970, constituting a full-fledged new tier of government.[19] In Great Britain a large number of academics, politicians, administrators and citizens are asking for a far-reaching devolution of power from the Central Government to the regional levels. Apart from the Government of Greater London, the Royal Commission on Local Government recommended the setting of three metropolitan areas and 58 unified local Governments having a population of 2,50,000 to a million. The Maud Commission also "pleaded in favour of the creation of light provisincial councils, which would correspond closely to the existing economic planning regions."[20]

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18. Isard and Cumberlaw - Ed. Regional Economic Planning - Organisation for European Economic Co-operation - Paris - 1961-page 22.
19. Regional Planning and Regional Government in Europe - IULA, The Hague, 1971, page 30.
20. Ibid. page 46.

In France the beginnings of regional policy came in the mid-fifties from the dominant concern to promote the decentralisation of industry from the Paris region. Gradually, however, regional policy and regional development became much more closely related to national economic planning. By 1964 in France, physical and economic planning was vested in 21 'regions' created by combining a number of 'departments' with one of the Prefects of the principal department functioning as the regional Prefect with a special supporting technical team and a deliberative body known as the "Commission de development economique regione" (CODER).[21] Regional development has assumed a broader dimension of "evening out the large disparities in resource utilisation and living standards which existing in the different regions of the economy in order that all regions could make the maximum contributions to, and reap the maximum benefit from, economic and social development".

15. In India there are small Union Territories and some small States that are themselves more or less regional units. All that is necessary is to give a physical and spatial basis to their planning process. In most States, however, it will be necessary to identify regional units covering a few districts in a compact homogenous area with appropriate structure of human settlements for self-reliant development and growth. The question is whether, as at present, the District can be considered as a good enough unit for planning and development. The Rural Urban Relationship Committee considered this question at some length and their observations in this regard are

reproduced below:[22]

"For the purpose of convenience, the district may be taken as the regional unit for planning and development. The Committee are aware that districts vary in size and population. Some of the districts are two large, while some others are two small. They do not always have regional or economic homogeneity. It is true that all the districts of the country cannot be the same in size and population and topographical features have to be reckoned with. Nevertheless, the Committee hopes that following the example of the formation of blocks, as units of development within the district, the question of re-adjusting district boundaries in order to make them conform to natural planning units will receive due attention of the State Governments. In any case, for administrative conveience, the district must be accepted as the regional unit for planning and development for the present."

In the course of a study of the Planning Regions in the Mysore State (1960), M/s Prakasa Rao and Bhatt pointed out that there are 216 districts out of a total of 310 in India which need re-adjustment either because of area or population or both.... In many cases the District boundaries cut across different physio-agronomic regions and functionally inter-related and therefore are hardly suitable as planning units."[23]

16. That the area and jurisdiction of existing districts will bear some considerable adjustments cannot be denied but any such adjustments set into motion a chain of administrative and territorial orientations and adjustments of land records that tend to discourage such a trend. It is also a fact that many districts in India are fairly large with population of about 2 millions each and having a number of rural and urban local authorities. Even if some boundary adjustments are made,

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22. Report -Vol. I - Ministry of Health & Family Planning - 1966- para 5.20.
23. V.L.S. Prakasa Rao-Regional Planning - Indian Statistical Institute, Calcutta, 1963 - page 31.

the district as a unit is bound to stay. On the other hand, it has been seen that a number of districts together have common problems and some of the inter-district problems require a broader area approach. An international seminar on the Kanpur region held in 1967 identified an area of seven adjoining districts as a compact region for development with Kanpur as the growth pole.[24] According to a recent report[25] the U.P. Government are contemplating the setting up of four more development corporations on the pattern of U.P. Hill Development Corporation - one of them for the Bundelkhand region. The combining of a number of districts under a Divisional Commissioner for certain administrative purposes is an old practice and it should be possible to rationalise the composition and boundaries of these divisions in terms of planning regions. The Kanpur Seminar made some pertinent recommendations in this regard.[26]

Suggestions for Regional Administration

17. It is, therefore, necessary that the existing district units should apart from any possible boundary adjustments be oriented in two respects:

(a) They should become the apex units for both rural and urban authorities and its plans should cover both rural and urban areas;

(b) The plans should be based on a physical spatial plan interlinking the rural and urban areas for a balanced development of infrastructure in relation to identified growth points and the hierarchy of rural and urban settlements in the district.

24. Regional Perspective of Industrial and Urban Growth - The Case of Kanpur - Macmillan - 1969.
25. Times of India - Feb., 21, 1972.
26. Op. cit. - page 347-49.

This will obviously require much stronger planning and development authority at the District level.

Apart from the district units, there are in some of the States dominant metropolitan areas, which will have to be treated as separate urban regions of which there would be about a dozen in the country.

18. In the larger States these basic district units and metropolitan regions may be grouped into suitable regional units under the Divisional Commissioner who should have a technical supporting team for co-ordinating physical and economic plans within the framework of a broad State Plan. This regional authority may also undertake programmes and works of an inter-district nature.

19. The grouping of the districts cannot, however, be an arbitrary matter. The State Planning Departments should, as recommended by the Kanpur Seminar, set up a Regional Planning Division, consisting of inter-disciplinary team including physical planners to divide the State into adjacent administrative units having internal problems of such a character and scale that they need to be brought together as a region for planning and development. The adequacy and viability of the area from the point of view of developmental administration will also have to be taken into account. The State Plans can then be based on regional plans and the programmes of the respective State Departments will need channelling through the Regional, District and Metropolitan authorities except in the larger spheres of technical and financial support and studies and research.

20. There is still the problem of administration of some inter-State river basin or metropolitan regions. The constitutional limitation rule out the creation of any exclusive authority that may be answerable to a State or to the Central Government. There are the Zonal Councils for each of the five Zones into which the country has been divided after the States Reorganisation Act, 1956. These Councils may discuss and make recommendations about matters of common interest in the field of economic and social planning. Attempts have also been made as in the case of National Capital Region for a High power consultative body with representatives of the States concerned. This has not so far proved effective. But it is hoped that the problems can be more easily resolved if the regional areas within the adjoining States are properly structured to work in close liaison with each other subjects to broad directions of an inter-State consultative body.

21. It need hardly be added in conclusion that the above proposals will have to take the form of law for regional planning and development authorities setting out their structure, organisation and inter-relationships between the local authorities and the State Government in this new context of developmental administration.

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Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(With special reference to Industry)
March [illegible], 1972.

"DISPERSAL OF INDUSTRIES"

by
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DISPERSAL OF INDUSTRIES

by

I.R.KHURANA*

(The plank of developmental policy of dispersal of industries and establishing new ones away from large and congested cities has broken down and regional industrial disparities have widened. Super-congested cities are getting bigger and bigger and attracting new industries as also expansion of the existing units. For the sake of rational distribution and decentralisation of industries, this must give way to a desirable spatial pattern. The case of small and medium cities and towns for locating new industries should not go in default. A proper balance must be evolved and established).

The urban settlement pattern in India is already lop-sided and left to itself the tendency for big cities and towns to grow even bigger will go unchecked and intensify the drift towards megapolises, metropolises and larger cities. According to provisional census figures for 1971, 52.4 per cent of the total urban population was concentrated in cities with over one lakh population and about one-fourth in nine metropolitan cities. There is, therefore, an urgent need to seek a more rational distribution of urban population. A balanced settlement pattern for the country as a whole, however, can be achieved only by evolving a sound urbanisation policy plan. But pending such a policy, it is imperative that the medium and smaller cities and towns should be made to play an active role by stimulating their growth by the provision of urban infrastructure, developed industrial land and industrial estates and other facilities to attract economic activities to them.

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It is needless to mention that industrialization is the most important single factor to induce growth and development and, therefore, attempts on the part of medium and small towns to attract industries through positive measures will lay a firm basis for the rapid and self-sustaining growth of these areas.

In enunciating the principles which should guide the location of major industries the Five Year Plans had emphasised that the location of basic industries should be based generally on technical and economic considerations. In the case of industries which export a significant proportion of their output, the location of new or additional capacity has to be guided by the need to secure economies of scale so as to enhance their ability to compete in foreign markets. But subject to these limitations the general approach has to be avoided further concentration of industrial activities in areas where considerable development has already taken place Similarly, care has to be taken to set up new industries away from large and congested urban centres.

The Third Plan, had, therefore, included schemes for the provision of basic facilities inselected areas to create the climate for the future development of these areas through industrial growth. Again industries which are not tied to any particular source of raw materials or fuel can be used as tools of development of

of larger areas. The benefits of a large project accrue in substantial measure not only to the population of the area in which the project is located but also to that of a much broader region. Therefore, in the location of important public sector projects, claims of relatively backward areas have to be considered favourably, provided this could be done without dis-regarding essential technical and economic criteria.

Whether in actual practice, this has been fulfilled or not is to be ascertained with reference to the facts of location of the large industrial undertakings. It has been claimed that a fair measure of dispersal has been and is being achieved through location of projects in the public sector. Industrially backward States like Orissa, Bihar, Andhra Pradesh, Madhya Pradesh, Uttar Pradesh and Kerala have received a fair measure of attention under the programme. Some of the projects have, no doubt, gone to States like Maharashtra and West Bengal and Madras but as has been pointed out earlier, in mav large industries economic and technical considerations have to over-ride regional considerations and only marginal deviations are possible in such cases. Obviously, backward States have also benefitted and it may be generally said that the need for dispersal of industrial growth among different States has been kept in view within the limits of

techno-economic feasibility, in deciding the location of public sector undertakings.

As regards large-scale undertakings in the private sector the most important tool for securing dispersal of industries is the Industries (Development and Regulation) Act of 1951. The Act applies to all large-scale manufacturing undertakings with an investment of one crore or above. No person or authority (other than the Central Government) can establish a new industrial undertaking except in accordance with the licence issued under the Act. The licence has to specify the condition as to the location of the undertaking and as such a substantial measure of control can be exercised through the Act in the location of large-scale undertakings in the country.

A factual analysis of the licences granted plus units which have been approved for undertaking new lines of manufacture upto 1970 seem to indicate that cities with over one lakh have accounted for over two-thirds of the total number of units licensed under the Act although the percentage of urban population in these cities was one-half according to 1971 census. In actual fact, the coverage of industrial units would be much higher on the basis of production as the units in these towns are generally larger. Towns with a population of 10 lakhs and above

have accounted for over two-fifth of the units though their share in the urban population was less than one-fourth. Bombay and Calcutta industrial complexes have accounted for over one-fourth of the units though the population in them was less than one-seventh of the total urban population.

Even in respect of Industrial estates, which have been used in many countries not only as a tool of development of industries but also as a means of securing industrial dispersal and injecting industrial activities into comparatively backward areas; cities with over one lakh population have benefitted the most. Nearly two-fifth of them have been located there while in respect of coverage they exceed 50 per cent of the total area under the estates. However, an important feature deserving mention is that the majority of the estates in cities with over one lakh are in the population range of one to five lakhs. Towns in population range of 20,000 to one lakh have also received some attention under the programme but generally, these have small to medium size Estates. It is thus clear that the concentration of industrial units in metropolitan cities and larger towns has been far in excess of the proportion of total urban population accounted by them.

Although the Government has accepted decentralisation of industries as a major goal of policy to reduce disparities in the level of development between

different regions; in practice, the policy cannot be said to have yielded very significant results, particularly from the point of view of planned urban industrial development. This is a matter deserving serious consideration as the larger settlement pattern for the country as a whole which is yet to take shape will be more and more influenced by the course of industrialisation because of resource allocation and in inducing supplementary economic growth.

It has, however, to be stated even at the risk of stressing the obvious that industries cannot function in a vacuum. They need the support of several factors like good and fast transport and communications, supply of electricity, well-developed banking and financing services, marketing net-work and facilities, adequate supply of technicians and skilled workers and other external economics like supply of ancillary services which make for economy in the costs of production. Cities and large towns because of the advantages of infra-structure facilities and external economies built-up by them over the years have been able to attract the industries. The process of growth also provided self-stimulating. But it has to be emphasized that the draw back of majority of the industrially backward areas in the country are not basic but reflect only the lack of socio-economic over-heads. Therefore, the pattern of infra-structure investment, i.e.

the type, scale and location of economic overheads has an over-riding importance for the future pattern of location of industries and thereby reducing regional imbalances.

Before coming to the details of the desirable spatial pattern which may be adopted for the distribution of economic over-heads and industries, it will be pertinent to refer to the lively controversy which has been going on for some time, regarding the viability of towns of different sizes for industrial development. According to one view only cities in the population groups of 2 to 10 lakhs and above in India can provide the environmental facilities necessary for the unhindered development of industries. Any attempt to decentralise industries below this level, according to this view, is likely to lead to dissipation of scarce resources through a high rate of ortality among the industrial ventures. According to another view, even towns of 20,000 could be considered suitable for the location of industries in connection with industrial decentralisation. While, no doubt, the controversy will go on for some considerable time it is of significance to note that the industrial bias of small towns in the population range of 50,000 to 100,000 is quite marked and one-third of them had more than 35 percent of workers in industry and it is really not correct to say that such towns will not prove economically viable for the growth of industries. But there is no doubt that the

pattern of resource allocation will have to be altered in favour of the smaller towns to create infra-structure facilities for the orderly growth of industries.

While it may be true that the bulk of mining and manufacturing considered of small-scale and cottage industries, the analysis does lend support to the view that small towns can also play an effective role in industrial decentralisation provided a selection is made of these towns on the basis of their potentiality for functioning as industrial nuclei.

An analysis of the actual trend in the growth of towns of different sizes in the last two decades reveal that the proportion of urban population in cities with over one lakh increased from 44.6 per cent in 1961 to 52.4 per cent in 1971. The number of cities in this class also increased from one-sixth to a little less than one-fourth of urban properties. In towns of the population group of 50,000 to 100,000 the number of towns increased from 141 to 198, but the proportion of total urban population hardly changed. In towns of 20,000 to 50,000 there was a decrease in the proportion though the number of towns had increased from 525 to 619. In all the other classes of towns, there was a decline in the relative share of total urban population as compared to 1961.

The overall picture is one of increasing concentration of urban population in the metropolitan and larger cities. It is also apparent that this drift will go on to weaken or reverse the trend. It may be stated here that the migration from rural to urban areas on the basis of current trends may be of the order of nearly 100 million during 1960-2000, A.D. and that a metropolitan city like Calcutta may come to hold a staggering population of 60 million by 2000 A.D. within its huge urban agglomerations.

The concentration of population in metropolitan cities and larger towns entails a very heavy socio-economic cost. Economies that might be feasible in urban over-head investment would mean a significant increase in the resources available for investment in other lines. It is of course, true that any such economy will be hardly worthwhile if it is at the cost of productivity or economic efficiency. But the significant point is that in the circumstances prevailing at present, the evolving of a settlement pattern which aims at a rational balance between large, medium and small towns, will minimise the cost of urbanisation and lead to a wider diffusion of development foci in the country and an overall increase in productivity in the long run, at a lesser social and economic cost. Such a pattern will prevent social regression and serious growth of dis-economics in

congested urban centres and also help to disperse the benefits of economic development among smaller towns as well.

From this point of view, the right policy to guide the distribution of industries might conceivable be as follows:-

a) New Industrial development should be steered away from metropolitan cities and larger towns and encouraged in every possible way in the medium and smaller towns in the population group of 50,000 to 1,00,000. The policy should not imply any restriction on the normal expansion (as distinguished from substantial expansion) of industrial firms already located in the developed centres, or on the establishment of 'export' industries which have decisive locational advantage in those areas. It is, however, desirable to see that the new industrialisation is not on a scale to encourage fresh migration into these cities and towns. Among the larger cities with a population above 500,000 industries may be allowed to be set-up in exceptional cases only, provided the industrial components of the working force is substantially below 30 per cent.

b) The medium and smaller towns in the population group of 50,000 to 200,000 may be encouraged in every possible way to receive industries. Of course, in making a selection of the towns out of this group for rapid

industrialisation, preference should be given to those which are already showing good growth potential and are likely to make significant contribution to decentralisation. Towns in the population range of 200,000 to 500,000 should also be favoured for locating industries, but, generally, no new large-scale industrial undertakings employing more than 1,000 workers should be allowed to be established in such cities except for over-riding techno-economic reasons.

c) Where in the context of the existing urban settlement pattern, it is desirable to develop new industrial foci for balanced regional development, careful thought should be given to the establishment of completely new towns. Heavy industries which are not particularly tied to sources of raw material, fuel etc., and therefore, permit of a good deal of flexibility in the matter of location, should be used as a tool of development of such new industrial centres.

d) Setting-up of heavy industrial projects of considerable magnitude should be geared to regional development plan so that their potential for inducing supplementary growth may be realised over as wide as an area as possible. The planning of the industrial township should be conceived as an integral part of a regional plan from the very beginning as otherwise the whole course of subsequent

development will trace the familiar pattern of congestion, over-crowding and deterioration, frustrating the very objective of raising the standard of living.

e) The question of establishing new towns will also merit consideration as it is conceivable that the establishment of such new development foci will be the most appropriate step in certain areas for the dispersal of industries. Of course, the setting up of new towns in place of adding to the facilities of existing smaller urban centres will always mean relatively higher per capita investment in overheads, but the circumstances of particular areas and the needs of dispersal policy may very well make such a course the most appropriate one.

f) The relocation of major industries from existing centres of concentration such as the metropolitan cities and larger towns may not be favoured as the process may involve the community in serious economic loss. But where Development Plans have been prepared and shifting of some of the major industries becomes a matter of planning necessity due to their being non-conforming or of abnoxious character, it will be appropriate to seek dispersal of these industries. The need for diversion of new industries from these centres to satellite towns has also to be stressed and should be considered an important plank in the programme of dispersal of industries.

g) Small towns in the population group of 20,000 to 50,000 which can function as the focal point of development of surrounding rural areas should receive their due share of attention because of their potential for the improvement of rural conditions. There should be an emphasis upon progressive development of these towns and the industrial development should be of a pattern to provide varied types of industries including processing of agricultural products, manufacturing of agricultural implements, farm produce, manufacturing of improved tools and equipment for village artisans and servicing of farming equipment etc.

Mere formulation of a policy regarding location and distribution of industries in the interest of controlled urbanisation and balanced development of different parts of the country will neither secure the desired result not the mere extension of legislation to cover additional industries by itself be effective unless the licensing of industries is done with due regard to the need for promoting balanced urban industrial development in the country according to a predetermined spatial pattern. It is, therefore, suggested that the Licensing Committee at the Centre and the State Industries Boards should at the time of licensing each unit furnish a certificate to the effect that the location of the industry has been approved with full regard to the

requirements of industrial dispersal policy. It may be useful to refer in this context to an analogous provision in the Town and Country Planning Act of the U.K. wherein it is stipulated that no factory of more than 5,000 sq.ft. may be built anywhere at any time unless the Board of Trade certifies that the development in question can be carried out consistently with the proper distribution of industry in the country.

Lastly, it may be mentioned that for the successful implementation of the policy regarding location and distribution of industries outlined above, an integration of development programmes relating to industrialisation, urbanisation, and infrastructure investment on a regional basis is urgently called for. From the practical point of view it will be desirable for the State Governments to try to achieve an integration of their plans and actions in this behalf within the framework of broad-regions or zones into which the States may be divided for such planning purposes. Quite often, such regions or zones may consist of four to six districts which are linked together economically and form viable units for planning the projected developments.

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Discussion paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
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"BACKWARD AREAS IN POOR COUNTRIES: PROBLEMS AND PERSPECTIVES OF DEVELOPMENT"

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BACKWARD AREAS IN POOR COUNTRIES: PROBLEMS AND PERSPECTIVES OF DEVELOPMENT (with special reference to India)+

by

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In this momentous decade when men, in quest of extending their knowledge of science and technology, have stepped on the celestial space, we, in India, are struggling to evolve a workable, feasible and acceptable strategy for developing our backward areas and regions. The concern for their development and progress has never been so high on the agenda of national priorities as of now. The last few years of turmoil and unrest, tendencies of disintegration, and massive demands for either bigger states, or for the division of the existing geographical boundaries of the States are evidences of, or at least speak of, neglect of attention of such areas. The situation today has reached a stage when it is no

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The views expressed in this paper are the sole responsibility of the author, and do not reflect those of the Small Industry Extension Training Institute, Hyderabad, or the Government of India, or the Massachusetts Institute of Technology, U.S.A. The author is indebted to Professor John R. Harris, Associate Director, Special Program for Urban and Regional Studies of Developing Areas who read through the draft of this paper and made extremely valuable suggestions. However, only I am responsible for the inadequacies of the paper.

longer open or optional, much less desirable, for the governments to defer the development of backward areas: alternatives to these are a threat to the democratic institutions, to political stability, and may be to economic freedom. Such an eventuality should not cause any surprise - the sheer magnitude of the task touched, as of 1961, approximately 86 million human beings in India, roughly 20% of the country's population!

The problem of backward areas is neither peculiar to India nor a characteristic feature of only the poor societies of the world. Barring a few exceptions, and very few indeed, all nations belonging to the categories of rich and poor, planned and laissez-faire have the stigma of incredibly high inter-regional differences and backwardness. The Appalachian region of the United States, the Acquitaine region of France, the Mezzogiorno of Italy, the Macedonia of Yugoslavia present problems perhaps as difficult and repugnant as those portrayed by East Bengal in Pakistan, Nordeste in Brazil, Oriente in Colombia, and Raylaseema and eastern Uttar Pradesh in India. Even the small and affluent countries of Sweden and Switzerland with per capita income of over $2500 and high annual growth rates have these problem areas where, by any stretch of imagination, one would not expect the backward regions to simultaneously coexist with developed and advanced regions. It, however, does not mean that the nature or essential features of backwardness are the same in these countries

or regions. In fact, they are widely apart. Benjamin Chinitz identified seven distinguishable types of distressed areas in the United States, itself, and suggested the need for appropriate policy responses to each type of distressed area problems.[1] Cross-nationally, the Appalachian region of the United States with revaged lands, unemployed and to some extent unemployable miners, absence of public capital and indigenous entrepreneurship has little in common with the Acquitaine region of France whose main problems are related to aging population structure, net out-migration, depressed agriculture, and below average income levels. Between the rich and poor nations, these differences are even more marked. What, however, makes the problem of backward areas in poor countries so distinct, critical and urgent is the fact of the sheer size of the population, their abject poverty, high illiteracy, extremely low levels of subsistence, anemic enterprise, and a kind of desparation and hopelessness that obtains in these areas. This is the well-known 'syndrome of collective poverty' of the backward areas in poor countries.[2]

Almost all countries have been attempting, through specially designed policies, programs and measures, to develop their backward

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1. Chinitz, Benjamin, "The Regional Problem in the USA," in E.A.G. Robinson (ed.), Backward Areas in Advanced Countries, Proceedings of a Conference held by the International Economics Association, Macmillan, 1969.

2. Friedmann, John, "Poor Regions and Poor Nations : Perspectives on the Problem of Appalachia", Southern Economic Journal, Vol. 32, April, 1966.

areas and regions. The range of these measures and their application, however, is widely different. While in some countries, extremely direct measures such as establishment of large scale enterprises in the backward areas have been employed, in many others there has been dependence on a variety of direct and indirect incentives. The fact that these regions, notwithstanding a host of measures, are still identified as backward and distinct entities shows that the efforts put in have been far from adequate.

The inadequacy of efforts particularly in the less developed countries has many antecedents. Faced with the acute deficiency of developmental capital, these nations are split widely on the need, justification and wisdom of channelizing their investments to the backward areas where the returns are supposedly lower than the investment in the progressive areas. As a consequence, there is an endless and unproductive debate on the trade-off between rapid economic growth (efficiency) and inter-regional equalization (equity). Apart from bringing into focus the inseparability of the political aims, social justice and economic efficiency, this controversy has hardly helped in evolving any criterion for rational allocation of investments between the backward areas and progressive areas. Neither has any light between shed on the determination of priorities for these alternative national goals in any given framework of time.

Another issue that stems out of this predicament is related to the goals of regions themselves. Should the regions operating as subsystems of the geographically determined national boundaries choose to maximize their net output independent of the national welfare optimizing functions, or should the policies and programs of their development be considered within the framework of the national goals and objectives. What is the process by which the national goals can subsume the diverse regional need and aspirations without being accused of partisanship or parochialism, if the latter view is more prevalent?

Literature on the whole gamut of issues concerning the development of backward areas is scanty and largely disjointed. Formal models based essentially on the postulate of economic rationality and without the social and political context of choice contribute little either to understanding the phenomen of backwardness or resolving the formidable task of defining an approach for the development of backward areas. And, therefore, the basic problem persists: What should be done in terms of formulating a policy, or evolving a strategy or drawing up specific programs to develop the backward areas in less developed countries? It is essentially this question that I have myself addressed to in this paper. In writing this paper, it was not possible to avoid discussion of related key issues. The canvas, therefore, is somewhat wider but not frivolous.

1. Controversial Setting of the Problem:

Whether the backward areas should be developed at all, at least until an undefined threshold stage in national economic development has been achieved, continues to feature as a major controversy in almost all planning models of the developed and less developed countries. The genesis of the controversy is in the planning goals itself. On the one hand, for instance, the political leadership of a country, for reasons that are obvious enough, is anxious to achieve rapid and substantial increases in per capita national product, while on the other hand, it feels strongly committed to redistribute the fruits of economic growth between peoples and space. These goals, as the classical interpretation goes, are mutually incompatible in a "short-run". In the long run, however, it is contended that there is no inconsistency between these goals; in fact, they may well complement each other towards accomplishing the ultimate objective of social advancement.

This reasoning has given rise to serious polarization in economic reasoning.[3] The proponents of "growth", which to them is an inescapable national goal, argue that for the less developed

3. See Albert O. Hirchman, The Strategy of Economic Development Yale University Press, 1958, Gunnar Myrdal, Economic Theory and Underdeveloped Regions, London, 1957; and Paul Streeten, "Unbalanced Growth", Oxford Economic Papers, June, 1959 for an excellent discussion of the implications of Balanced Growth vs. Unbalanced Growth Strategy for inter-regional growth and development. Particularly interesting are the interpretations of polarization (backwash) and trickle-down (spread effects on regional growth patterns.

countries who have scarce supply of resources, any splitting of the investable funds between advanced and backward areas will slow down the development process, and result in overall lower returns on total investment. Investment will become inefficient and a successful take-off of the economy will get stalled. On the positive side, this school of though asserts that the concentration of resources in progressive areas will permit these areas to grow sufficiently fast to acquire a momentum of growth that will eventually trickle-down to the backward areas. Therefore, a strategy of concentrating investment capital in the progressive areas is highly appropriate in the context of the less developed countries. In other words, they see no justification, at least in a supposedly short period, in allocating investments for the development of backward areas or regions.

Those who support growth equalization, or what is known as the balanced-growth strategy, rest their case on at least three counts. Firstly, they argue that by a proper inter-regional allocation of investments, the country can maximize its total welfare as the marginal utility of income in the backward regions is generally higher than the progressive regions. The positive effects of a more even distribution of income on the savings potential are simultaneously recognised in this argument.[4]

4. The argument that uneven or skewed income distribution has a higher savings potential and therefore conducive for capital formation has become anachronistic in view of recent empirical evidences. See UN Economic Commission

Footnote Contd..

Secondly, it is held that the large gap between the advanced and backward regions is not conducive for any kind of social and political stability, and therefore, the national interest should lie in narrowing down the gap by a deliberately designed investment policy. And thirdly, the concentration of investment in the progressive regions pulls a disproportionately large amount of resources and talent from the backward areas which permanently damaged their long run potentiality and profitability. On these grounds, it is suggested that the development of backward areas alongside the progressive areas through a balanced-growth strategy will result in the maximization of national welfare function.[5]

When the stage in the planning process shifts from choosing alternative goal strategies to actual allocation of investments, sectorally and spatially, then the problem presents itself in this form; given the investment magnitude, what should be

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4. From pre-page.
for Asia and Far East 1971 Report which reads "...recent evidence suggests that the lower income group's propensity to invest is much higher than generally assumed.....a more equitable income distribution may help rather than hinder capital formation and economic growth.....", quoted in BOSTON SUNDAY GLOBE, April 4, 1971 under the title Socialist Solution for Asian Problems.

5. There are several overtones of this kind of debate of which at least one is very significant. It refers to large scale transfer of resources, both material and human, from the backward to the advanced regions - a phenomenon that has been identified with exploitation of the poor areas by the rich areas, almost of the same kind that we are most acquainted with: Britishers in Asia, French in Africa and so on. History seems to be repeating itself - internationally - in this form of neo-colonialism.

the relative allocation of investments in the advanced and backward areas of a country. Or to put it differently, if a country opts for a policy whereby it can make investments in both kinds of regions, then how much economic growth it is prepared to give up for achieving a certain measure of economic equilization, if the proposition of "incompatibility" is accepted as carrying greater weight.[6] Below is given a hypothetical trade-off matrix to analyze this point.

A Hypothetical Trade-off Matrix

Alternatives	Growth and Accumulation.	Equilization and Redistribution.	Growth & Accumulation.	Equilization and Redistribution.
(1) Concentrating Investments in Progressive regions.	.Desirable	.Skewed	.Decline in growth rate	.Accentuation of inequalities.
(2) Concentrating investments in backward regions.	.Undesirable	.Reasonable evenness	.Static	.Even
(3) Allocation of investments in the two regions.	.Less than desirable	.Skewed to even.	.Acceleration in growth rate.	.Even

This is a conventional hypothetical matrix which sets up trade-off points between "growth" and "equality" in short and long run phases under three alternative investment choices. Following observations can be made from this matrix:

6. Economic equalization is assumed to be the outcome of investments in the backward areas.

.In the short run, economic growth of a "desirable" order in national product is achievable under alternative (1) as against "less than desirable" growth under alternative (3). In the long run, under alternative (1) there is a decline in the growth rate of national product presumably on account of diseconomies of concentration of investment in the progressive regions. On the other hand, growth rate of national product is accelerated under alternative (3) in the long run phase.

.The effects of concentrating investments in the progressive regions on income equalization are negative under short and long run periods, while a policy of allocating investments.

.In both progressive and backward regions may result in narrowing down the income differences in the long run.

.In a long run perspective, alternative (3) seem to be decisive as the combined effects of even income distribution and accelerated income growth rate on national economy far exceed those manifest under alternative (1). It is the short run phase where hard decisions involving several considerations have to be made.

This manner of examining the issue of investment choices which is conventional in most planning exercises is not only partial but also bypasses the core of the trade-off analysis.

The core of the trade-off analysis does not lie in simple comparisons of growth rates of national product with the effects of alternative investment choices on income distribution vectors: the real trade-off is between the loss in the growth rate (from alternative 1 to 3) and the net gain accruing to the national economy as a result of relatively even income distribution under alternative (3). The latter are measurable in terms of their effects on savings, reinvestment, additional income generation and the resultant set of demand profiles. The real thrust of the illustration is that in a trade-off analysis, it is important to take into account the direct and indirect, short and long term effects of allocating investments in the two kinds of regions rather than contrast only the direct effects of investments. The use of this technique can absorb the economic effects of investments in the backward and progressive regions in any given time frame by (a) systematic enumeration of items of costs and benefits, (b) their valuation not at the prevalent market prices but at carefully selected accounting or shadow prices, and (c) discounting the stream of benefits and costs over any period of time.[7] Though cumbrous and handicapped with the

7. The application of social accounting technique is still in embryonic stages but opens up a vast field for research. Associated with the relative newness of this technique in regional studies are also the controversial issues of shadow prices and discount rates. For instance, if Social Time preference is chosen to represent the discount rate as opposed to the market cost of capital, it will be worthwhile examining if the STP for the two regions will be different or the same.

scarcity of data, it is certainly possible to make this kind of analysis to help the process of decision making in investment choices and smoothen the controversial setting of the problem.

This, however, is purely an economic front without the political, social or institutional constraints. There is little doubt that oftentimes these are overriding considerations in investment choices and cause frustration to the economists when there recommendations based on detailed economic calculas are either ignored or given little weight. But this is not a matter with which there should be any cause for conflict: "after all, we have political bodies to establish basic objectives of policy. This must be the starting point for all studies on regional policies and problems."[8] The crux of the argument is that "growth-accumulation" is not the primary goal of the less developed countries. It is the aggregate social gain which should be the overriding criterion for allocation of investments. In other words, what we should set our mind on is "development" as distinguished from "growth".

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8. See Antoni R. Kuklinsky, Goals in Regional Policies and Objectives in Regional Planning, United Nations Research Institute for Social Development, March, 1970, UNRISD/68/C.48/ppvii. Also examine the following statement, "...no nation can pursue allocation policies aiming at efficiency in the limited economic sense only but have to make allowances for political aims...," in UNRISD staff study, Interregional Allocation of Investments for Social and Economic Development, Report No. 70.4 Geneva, 1970.

2. Criteria for Backwardness:

What constitutes a backward area has raised sufficient academic and political dust to merit a discussion in this paper. Besides the fact that it is a relative concept, and relativity implies some value judgments, it has a number of implications for developing assistance programs for the backward areas which needs to be referred to here.

In academic parlance, it is most customary to explain the phenomenon of inter-regional differences in the levels of development in terms of non-homogeneity of resource distribution. It means that the resources, human and material, are unevenly spread over space which given to some areas an advantage over other areas. The less advantaged or disadvantaged areas, in the absence of outside intervention, are caught in a kind of vicious circle of collective powerty, and, as time passes by, the task of breaking this circle becomes more and more difficult.

In a pragmatic sense, the basis for identifying backward areas is closely related to the many forms of poverty. In the USA, for instance, poverty or backwardness is measured by the rate of unemployment or low income levels. Thus, even though, there are seven independent criteria for determining economic distress in the USA (Public Works and Economic Development Act of 1965), they can be subsumed either under unemployment or low

income. Where, however, backwardness is really a deep-seated or a collective phenomenon as is the case in almost all developing countries, use of several indicators becomes necessary. In India, for example, the Office of the Census Commissioner used a 33-factor scale to arrange the districts in their respective levels of development.[9] Factors were so chosen as to represent practically every sphere of activity on the premise that given a certain degree of agricultural and general infrastructure along with a potential of human and other resources, there is bound to be a certain level of economic development.

Valuable and comprehensive as these methods may be, they cannot escape the obvious shortcomings. The first of these shortcomings is associated with the lack of agreement on the positive and negative values of certain indices. For example, in the India study cited above, a positive grading was assigned to the higher proportion of scheduled castes and tribes (an underprivileged class like the non-white Americans in the USA) as in the opinion of the author, there was 'nothing to dispute the long-term value of the asset', (asset referring to scheduled castes). Normally one would regard it as a sign of backwardness, as is generally the case in India. Further, there are some

9. Mitra, Asok, Census Commissioner for India, Levels for Regional Development in India, Government of India Press. 1965. Also see Appendix A which gives a brief account of the factors used in identifying the levels of economic development in India.

indices which have both positive and negative values. Density of population is the case in point whose positive and negative values depend on how high or low these densities are, rates at which these are increasing or decreasing, and what is the absorptive capacity of the towns whose densities we are considering.

Another handicap in the process of delineating backward areas is peculiar to those countries who rely on single criterion for this purpose. Thus in the USA, the application of either unemployment or low income criterion has produced unbelievable results: parts of California where per capital incomes are very high and growth is rapid are eligible for federal aid along with the Appalachian region on account of substantial degree of unemployment.

Another very ubiquitous criticism of these methods is based on (a) the value judgments implicit in the selection of weights for individual indices and (b) the statistical fallacy of using indices, some of which being relevant for a point of time (1971) and others over a period of time 1961-71). The extent of discussion on these issues has been so widespread that it has left the debate totally sterile. These are no longer excitable problems, and are considered to be within the realm of what may be called 'qualitative reconciliation'.

The real inadequacy of these methods - the crux of the whole issue - is of a different nature, and has to do not with what it reveals but what it does not. In other words, when a

number of criteria are collectively used for purposes of identifying the backward areas, the results show that the areas A, B and C are backward relative to X, Y and Z, but they do not show the basic nature of backwardness. For instance, it is not possible to ascertain from these kinds of methods whether the area is inadequately equipped with infrastructural facilities, or the agricultural practices are outdated, or the demand for industrial output is sluggish. Therefore, these techniques have no operational value. If the assistance programs are designed on the basis of general backwardness of the area, they will in all probability be ineffective.

To overcome these problems, particularly in those less developed countries where poverty is multifaceted, it seems essential to have a system of two-stage identification. The first stage should be concerned with a primary identification of areas according to their levels of development. This stage is necessary to find out areas which will need assistance. The second stage, however, is more crucial where backward areas may need to be arranged according to their socio-economic and infrastructural characteristics so as to provide an understanding of the nature of backwardness. Needless to say that, without the second stage identification, it is neither possible to know what

the area needs nor feasible to design specific programs for their development.[10]

The political activity to have the areas of their jurisdiction or influence designated as backward areas is not typical only of the less developed countries. In some countries like the U.S.A., there is an inbuilt system whereby the political aspirations of every state are satisfied at least in a symbolic sense. U.S. federal aid, therefore, is available to "at least one eligible area in every state". In many other countries, interest groups use their influence in such a way that the criterion that would enable them to get a higher quantum of federal aid is given a higher weightage. In yet other countries, there are frequent pressures on the federal government not to tie the aid with specific backward area projects but permit the State governments to use the aid in the manner that serves the best interests of the States. These pressures are part of the social and political systems in any society. Their support is also essential in the total process of the development of backward area development.

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10. The report of the Working Group on Identification of Backward Areas set up by the Government of India suffers from deficiency: see Government of India, Planning Commission, Identification of Backward Areas, Government of India Press, Faridabad, 1969.

3. Prevalent Solutions to the Backward Area Problems

Of the several solutions to the problem of backward areas, that of mobility of labour and capital is by far the most important and prevalent. The classical interpretation of this solution is that in an imperfect economic system, disequilibria between regions can be corrected <u>only</u> by a deliberate policy of movement of labour or capital or both. It is from this interpretation that has followed the most commonly discussed solutions: Moving people to jobs or moving jobs to people. These solutions have taken several forms, and we have become familiar with provision of infrastructure capital, package incentive programs, direct investments in agricultural and industrial projects, induced emigration of people from the backward to progressive regions, etc. These, in effect, are adjuncts to the main solutions.

In addition, there is an academic minority who have sought to resolve the backward area problesm through networks of extension and promotional services. The main contention of this minority group is that the problems of backward areas are not as much economic as social and cultural in character, and, therefore, to deal with such cases of social or cultural pathology, it is necessary to provide a totally different focus to the solutions. Some in this group have gone far ahead to research into the ways and means of enhancing the achievement-

motivation of the people of the backward areas on the evidence that in comparison to the progressive regions, their achievement-motivation is lower.

Moving people to jobs as a solution to the problem of backward areas in typically considered in societies where the labour supply market is roughly in balance with the demand for labour. In such countries which happen to be in the category of advanced, it is contended that movement of labour from excess supply areas (backward) to areas of excess demand (progressive) can provide a solution for the backward areas. This assumes that the main problem of these areas is high unemployment, which is not always the case. On several ather grounds, too, its appropriateness in the advanced countries has been questioned.[11] This method is clearly inappropriate for the less developed countries where, firstly, the aggregate supply of labour is always in excess of demand and, secondly, even the progressive regions have a sizeable proportion of unemployed people. So, this method has never been actively considered in the poor countries.

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11. See Lionel Needleman, "What are We to do about the Regional Problem', Lloyds Bank Review, January 1965.

Moving jobs to people is the current practice in most of the advanced and poor countries for developing the backward countries. The main underlying idea in this approach is that jobs should be moved to the backward areas so that the local unemployed class can be absorbed and new local income generated. Further, when the jobs move to such areas, their structural and environmental handicaps are also overcome.

The most potent method for moving jobs to people has been the transfer of capital to the backward areas, which by definition are capital-deficient. These capital movements have taken at least three major forms. The first form of capital movement, which has long been in use both in the advanced and poor countries, is direct public investments in economic and social overhead facilities. There are several advantages that are implicit in this kind of investment. Firstly, it is an investment which equips the backward areas with the so-called preerequisites for industrial and economic development and, in this sense, it removes the major obstacles of the backward areas for developmental purposes. Secondly, this investment creates a large number of job opportunities, at least in a temporary sense, which has long term favourable effects on the growth of

the area. And thirdly, it is one of those investments which has to be made in any case as part of social obligations on the part of the public agencies.[12]

The second form of capital movements has its roots in those economies where the governments are not only catalysts or agents but equal partners in the development process. Thus, the governments as part of the developmental efforts for backward areas have invested in large scale agricultural and industrial projects. The logic of this form of investment is often expressed in the creation of a 'basic or export sector' which in many ways is considered to be the prime need for the backward areas. Its effects on the absorption of surplus labour force are ecognized as most direct contributions to the development of backward areas.

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12 Paul Rosenstein-Rodan champions the case for infrastructure. See his article, "How to Industrialize an Underdeveloped Area", in Walter Isard and J. Cumberland (Eds.) <u>Regional Economic Planning - Techniques of Analysis for Less Developed Areas,</u> European Productivity Agency, Paris 1961.

The third form of investment through the provision of a variety of incentives - fiscal and monetary - is one of the very important instruments of public policy for developing the backward areas. Central to this policy is the fact that private capital movements are extremely sensitive to market phenomena, or, in other words, they operate strictly on the principle of seeking highest profits. As long as the profitability advantage rests with the progressive regions, private capital cannot be persuaded to move to the backward regions. The main function of the incentives programs in the less developed countries is to provide a cushion in such a manner that private capital in the backward areas earns a competitive, or more than competitive, return.

It will be an extremely difficult exercise to comment, in any conclusive sense, on the efficacy of these methods in the less developed countries. There have been examples when the pay-off has been quick and substantial. There have been instances - many, many of them - in which investments have been totally unproductive. There are examples where the provision of new infrastructure in the form of improved transportation, power supply and communication have led to large scale outflow of raw materials, instead of stimulating the local processing and treatment of raw materials for transhipment to outside markets. Industrial estates and districts

established as part of the package of incentives have remained un-occupied. Large scale enterprises have not caused the regional economy to grow or diversify.[13] On the other hand, there are a few backward regions where, in response to the government sponsored small research and extension stations, industrial enterprises have multiplied at an incredibly high rate, removing within a very short period all traces of industrial backwardness.

These examples of successes and failures can be multiplied to any length, but one observation which is widely made is that the existing practices are weak and unable to meet the challenge that is posited by the backward areas. More specifically, the weaknesses in the existing programs are noticeable in at least three areas. The first weakness of the prevalent practices is related to the lack of relationship between the quantitative needs of the backward areas to get them off to a start and the actual assistance that is offered by the governments. The latter - as the experience shows - usually falls short of the minimum requirements of the area with the result that whatever public investments are made therein become wasteful.

13. See Government of India, Development Commissioner (Small Scale Industries), Fiscal and Financial Incentives for Starting Industries, Government of India Press, Faridabad 1969.

Failure to recognize that there is a critical minimum effort that must be put in before the area responds is one of the severe handicaps of the existing practices.[14]

The second weakness in the existing system is no less pronounced, and has to do with the lack of relationship between the nature of public Investment with the nature of backwardness. Provision of industrial infrastructure in an area which has no industrial potential is a typical case of the mismatch with which we are quite familiar in the developing countries. This weakness arises out of the widespread belief that economic development is synonymous with industrial growth, and, if the area is equipped with facilities required for industrial growth, the development of the area will automatically follow. This obviously is a wrong notion the application of which results in unproductive and untimely investments.

The third weakness is related to the administrative and implementation lags. Even though these are important issues,

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14. This corresponds with Paul Rosenstein-Rodan's theory of the Big Push. Examine the following statement, "There is a minimum level of resources that must be devoted to a development program if it is to have any chance of success. Launching a country into selfsustaining growth is a little like getting an airplane off the ground. There is a critical ground speed which must be passed before the craft can become airborne," quoted in <u>Notes on the Theory of the Big Push.</u>

there is little to say except that these lags should be overcome. This paper does not propose to go into this aspect of the problem.

Notwithstanding the weaknesses in the operation of the existing practices and programs, they cannot be discarded from consideration. Theoretically, these methods appear to be well justified. So, the chief concern of this paper is to identify operational elements which can make these strategies and policies effective.

4. New Elements in the Development Approach

The formulation of the catalogue of new elements in this section proceeds on the assumption that, in the years to follow, governments and public bodies, even in the mixed economies, will change their role from major investor in backward areas to promoter of private investment.[15] It does not imply that governments will not invest at all. It means that, while the governments may still set up large scale enterprises in the backward areas, the governing criterion for their location will be techno-economic rather than regional. It logically follows from the above that promotional

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15. This is not an unrealistic assumption in the sense that governments will not like to keep total control of activities excepting those which are strategic in character.

meansures such as tax exemptions, rent subsidies and other preferential treatments will receive a far greater stress in the development of the backward areas than has hitherto been the case. This section will digress in detail on incentive policies and programs as the major public instrument for the development of backward areas.

There is a widely held fallacy in some of the countries on the role of infrastructure for the development of backward areas which should be cleared before we discuss the ingredients of incentives policies. In many less developed countries, there have been instances when programs for the development of backward areas were conceived almost wholly in terms of infrastructure development which, for many reasons, did not bear fruit. These instances were based on the notion that infrastructure is a kind of incentive for economic development, while strictly defined, it is a prerequisite for development. While its significance in the development process cannot be under--rated, there is also not doubt that infrastructure without a strong supplement of other promotional measures cannot achieve comparative advantage for the backward areas which is the hard reality for their development. Thus, it should be clearly understood that the provision of infrastructure facilities, though a necessary condition for the development of backward areas, is not a sufficient condition.

Incentives for backward area development are widely accepted and applied. Italy or Puerto Rico, Belgium or Ireland, India or Malaysia -- all have comprehensive incentive policies and programs which are conspicuous for their similarity in the n-ture and variety of the incentives. Thus, total or partial examptions from income tax, corporate or sales tax, examptions from payments of import duties, low interest rates on borrowed capital are some of the common ways in which incentives are provided for starting enterprises in the backward areas. What, however, is not similar in the incentives po-icies of these countries is the <u>quantum</u> of various incentives on which hinge the success or failure of incentive policies and programs. In Italy, for example, there is a tax holiday for ten years on profits earned on new investments compared to a three years examption in Canada and up to seventeen years in Puerto Rico. The crucial question that is often raised in regard to the quantum of incentives is this: what quantity of incentives will be adequate to induce private entrepreneurs to invest in the backward areas? Or to put it differently, what is the amount needed to offset the disadwantages of the backward areas for development purposes. It should be obvious that when such questions are posited in the less developed countries the real purpose is not to find the right figure of incentives but to seek

shelter for the lack of any basis or rationality in their incentive policies. Thus, when any government announces that its incentive policy will provide for exemption from payment of income tax for a period of five years, it, in most cases, has no basis: it is merely an <u>ad hoc</u> decision borrowed from other countries or taken without adequate knowledge of the likely effects of this form of incentive on the entrepreneurs readiness to invest in the backward areas. In most of such cases, the governments do not know what they are giving away as incentives and the entrepreneurs do not know what has been offered to them. Further, most of the incentive policies assume that the 'amount' of incentives sufficient to attract private investment is the same in all the regions, and therefore, there has been a tendency for these policies to become standardized and inflexible.

Besides the problem of determining the quantitative levels of incentives that is flexible enough to take into account the peculiar regional demands, there is a great ambiguity on the issue of which 'sectors' should be given higher priority and preference in the grant of incentives. As a matter of general rule, most countries do not extend the incentive privileges to the agricultural sector which makes it difficult for agriculturally backward areas to develop, or if

they must, then their solutions have to be sought outside the framework of the incentive policies. Within the industrial sector to which incentives are available, there is no systematic scale of preference in granting the incentives, say, between capital goods or consumer goods sector, large, medium or small scale firms, resource processing industries or market oriented industries, basic sector or non-basic sector, local material based or imported material based industries. In some of the countries, all sectors qualify for the total package of incentives both in range and quantities as if all sectors or firms were representative of each other. There is little realization that there is neither any representative sector not a representative firm in the Marshallian sense of the concept. The result of this lack of differentiated policy is that either there is no response by prospective entrepreneurs to the vast array of insufficient incentives that are offered by the governments; or there is response by inappropriate industries which get started only to die, stagnate or the produce no catalytic effect on the growth of the area; or incentives provide larger subsidy to firms than is necessary to stimulated their development.

The above analyses provide a new orientation for incentive policies in four directions. These are as follows:

1. Incentive policy must embrace all the productive sectors of the backward areas. If, for instance, the backwardness of the area lies in poor agricultural productivity on account of low fertilizer use, two kinds of incentives can possibly be provided. The first kind of incentive is to make fertilizers available to the farmers at lower-than-market prices or give cash subsidy to help them purchase directly in the market. The second type is to provide extension services in the area so that the idea of fertilizer use can be disseminated to farmers. The likely effect of each kind of incentive is different and should be so recognized in the policy.

2. Incentives policy must embody a preferential scale of incentives for the different subsectors of the regions. Scale of preference should be so worked out that it reflects the national policy aims and goals. This is a very important facet of an incentive policy, as in many countries implementation or operational specifics do not lead to achievement of such goals. Thus, if the overall goals are to encourage industries with large employment potential, incentive policy should not only give high priority to labour intensive industries but also provide correspondingly higher levels of incentives to such activities. In the case when the need for the country is to efficiently use scarce foreign exchange resources, industries

making relatively poor use of foreign exchange should not only be subordinated to a level of low priority but no incentives should be given to them for their encouragement in the backward areas -- indeed, disincentives are called for.

Similar distinctions can be made between large, medium or small scale industrial firms for the development of the backward areas. Experience in many countries like Italy, Sweden and USSR has shown that where attempts to develop backward areas were made through small scale projects, they turned out to be unsuccessful.[16] Indian experience in this respect has been equally unhappy. If, however, the policies of the governments are still to promote medium and small scale industries in the backward areas these can be made effective and successful only when a much greater incentive subsidy is given to them compared to the large scale industries. Greater amounts of incentives could cover the risk, marketing and other communication costs to enable the small scale projects to become

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16. Thus E.A.G. Robinson writes, "One of the clearest lessons of the experience of attempts to regenerate backward areas in the past twenty years has been the failure of such attempts where they have been directed to small-scale projects, intended to help local (backward) communities. Not only the Italian, but also the Belgian, the Swedish and the Russian experience has been so clear in this respect that ....the peppering of a backward area with large numbers of small projects has come to be regarded as a recipe for failure." In Backward Areas in Advanced Countries, op. cit. Parenthesis added.

viable. It means that the incentive policy must be differential in character as far as the different size firms are concerned.

The policy must not stop at this point. To be really effective, the types of incentives should also differ with the characteristics of the subsector. For instance, incentives in the form of exemption from excise duties or sales tax have no meaning for industries producing items that are not subject to sales or excise tax. As such, the value of the incentive policies, though not negative, is merely notional. Thus, the essence of effective incentive policy really lies in the way it can identify the sectors to be promoted and link them up with the type and quantity of incentives. A matrix embodying the main features of an illustrative incentive policy, given below, can be a useful starting point.

3. Incentives policy must be flexible. Setting up nation-wide quantitative standards of incentives, such as a 3% rate of interest on borrowed capital, have neither any rationale nor relevance, and have little or no regional impact. What the effective quantitative level of incentives should be in a particular region is essentially a micro problem and cannot be made effective by some arbitrarily set figures at the national level. At the micro level, guidance on the

quantitative magnitudes of the incentives that will be adequate to attract private investment to the backward areas can be sought by following two steps. The first step is to estimate the rates of profitability for manufacturing a range of products in the backward and progressive regions. This is possible by reviewing feasibility and project reports that are available in almost all countries. The second step should be to raise the rate of profitability for different product lines in the backward areas by introducing quantity incentives to the extent that the profitability rate in the backward areas not only equals but sufficiently exceeds the corresponding rate in the progressive areas. In other words, the impact of the total package of incentives that are offered in the backward areas should be large enough to offset any competitive advantage that the corresponding producers in the progressive regions may otherwise have if development of the backward region is deeded to be worth such a cost.[17] The

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17. $({}_{a}Gs) - ({}_{a}Cp + {}_{a}Cd + {}_{b}Cd)$ --- (i) $({}_{b}Gs) - ({}_{b}Cp + {}_{b}Cd + {}_{a}Cd)$ ---(i

Solution suggested is to first find out (i) and (ii) by reviewing the several project reports that are available, and secondly by adding $({}_{a}1)$ in equation (i) so that equation (i) and (ii) are not only equal but (i) becomes greater than (ii)

Gs = Gross sales a is the backward region
Cp = Cost of production of commodity
Cd = Cost of distribution b is the advanced region
1 = Incentives

AN ILLUSTRATIVE INCENTIVE MATRIX

	Policy Goals, Broader Considerations						Sectoral Preferences					
Range of Incentives	Large Scale	Small Scale	Capital Intensive	Labor Intensive	Imported Material Based	Local Material Based	Food Manufacture	Beverage Manufacture	Paper Products	Printing	Basic Metal	Machinery Manufacture
Fiscal Incentives												
Development rebate												
Exemption from income tax												
Exemption from payment of import duties												
Exemption from payment of excise duties												
Exemption from payment of sales tax												
Transport subsidy												
Monetary Incentives												
Interest rate rebate												
Concessions on fixed assets												

* It has only an illustrative value. The matrix can be made only in reference to some given goals and sectoral preferences. Important is to achieve consistency between goal preference and sectoral preferences. High, medium or low level of preferences can be shown with*.

competitive advantage of the backward areas which lie in cheap labor, and more often than not, inexpensive supply of basic industrial products. There again is a difficult trade-off question between (a) promotion of "competitive enterprise" between regions by equalizing the wages and prices of selected commodities and (b) fuller exploitation of the main advantages of regions having lower wages and prices.

There is no doubt that the policy of equalization of wages and prices runs contrary to the very logic of the development of backward areas. The main emphasis in the process of backward area development is on tilting the balance in favor of backward areas which can be introduced only by a selective differential policy in respect of wages and prices. In the absence of such a policy, however, subsidies to promote development in the backward areas will have to correspondingly rise to wrest the advantage lost in the process of equalizing wages and prices between the two types of regions.

In conclusion, it may be said that the level and structure of incentives dovetailed with goal priorities and sectoral preferences hold the key for the development of backward areas in poor countries.

5. The Context of India's Backwardness

The problem of backward areas in India are severely complex for a variety of reasons. Firstly, it is a large country with a population of 523 million, per capita income of Rs.750 ($100), and a per capita annual growth rate of just 1%.[18] The sheer 'size of poverty' makes it an extremely difficult choice for the government between what is absolutely essential for people to make a survival and its desire to accelerate the process of development. Secondly, it is a federation of 18 States and 9 centrally administered territories who have the primary responsibility of developing sectors like public health, education, land, agriculture, irrigation, electricity, local governments and a whole range of activities under industry and transport. The role of the Central government is largely one of formulation of policy and overall plans which do not always manifest themselves in the development activities at the State levels. Thus, there is an inbuilt gap between the policies and their translation into specific programs in a political structure like that of India. Thirdly, India is a country with striking regional variations.

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18. The figures are from "World Bank Atlas, Population, Per Capita Product and Growth" and the reference year is mid-1968, International Bank for Reconstruction and Development, Washington.

Per capita income, as of 1964-65, varied from Rs.619 in the case of Punjab and Rs.529 for Maharashtra to Rs.292 for Bihar and Rs.365 for Rajasthan. Further, the rich States such as Maharashtra, Gujrat, Madras and West Bengal were recipients of approximately three-fourths of the total amount under loans, underwriting or refinancing sanctioned by the Industrial Development Bank of India. These regional contrasts, as we shall see, have very complex ramifications for the development of backward areas and cannot be dismissed merely as a matter of detail. Fourthly, the form of planning that India has can at best be described as 'Indicative' in character. Five Year Plans neither have anylegal mandate nor are comprehensive in the sense that every sector is planned in detail. Further, there is little direct control of the governments on the flow and direction of private investments which constitute 35% to 45% of the total plan outlays. For facilitating development, the government undertakes specific legislation, provides for requirements of foreign exchange and other material and financial resources, and introduces indirect controls wherever necessary.[19] These problems of size and magnitude, of political pulls and push and a partial planning framework are very real in India which cannot be ignored while finding solutions for its backward areas.

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19. The Industry Policy Resolution of the Government of India, dated 30th April 1956, is one of the most important legislations for such purposes.

According to a study made by Asok Mitra (ex-Census Commissioner for India), as of 1961, approximately 86 million people lived in extreme low levels of development, and another 110 million lived in conditions only a shade better than the last group.[20] Some of the pertinent data relating to the levels of development are given below:

Levels of Development, 1961.

Levels of Development	Population In Million	Population % To Total	Number of Districts	Urban Population % in each Category	Employment in Registered Factories in Each Category
Lowest Level	86.1	19.7	79	5.9	4.6
Second Level	109.6	25.0	88	13.7	14.5
Third or One Below the Highest	107.8	24.6	76	23.3	23.9
Highest Level	134.6	30.7	84	57.1	57.0
TOTAL	438.1	100.0	327	100.0	100.0

20. Mitra, Asok, Census Commissioner for India, Levels of Regional Development in India, Part I-A(1) Text, Government of India Press 1965. Also see Appendix A for details on indices used in the analysis. This is the only nationwide analysis of levels of regional development available. The results of 1971 Census which was completed in March 1971 are still awaited.

If we analyze the spatial spread of the levels of development on the map (enclosed), we will find that not all of the 196 million people in the lowest and second levels of development live on the contiguous plains of the country. A not too inconsequential percentage of people from these groups live on the "Himalayan terrain' which are inaccessible for a greater part of the year. Further, there are small contiguous areas in the States of Madhaya Pradesh, Orrisa and Andhra Pradesh which are mainly inhabited by the tribals. These are special backward areas whose treatement lies outside the scope of the paper.

Other districts in these levels of development are interespersed in small contiguous regions. The largest of such contiguous regions is the eastern Uttar Pradesh and northern Bihar whose populations may well be over two times that of the Mezzogiorno of Italy. On the southern deccan plateau, large contiguous backward regions can be identified. Thus, the problems in India are not the typical NORTH-SOUTH, but are dispersed throughout the country. Levels of development in these districts are markedly lower than the other districts in the third or the fourth levels of development which make the country highly imbalanced.

These differences were neither new nor unknown to the country. However, the need for closing the regional imbalances was first spelt out by the Government of India in the Industrial Policy Resolution of 1956. The relevant portion of the resolution reads as follows:

> "In order that industrialization may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced...... It is one of the aims of national planning to ensure that these (power, water supply and transport) facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable."

The Second, Third and Fourth Five Year Plans also make similar references. Some of these are reproduced below:

> "In any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment should be so devised as to lead to balanced regional development..." Second Five Year Plan, 1956-61.

> "Balanced development of different parts of the country, extension of the benefit of economic progress to the less developed regions and widespread diffusion of industries are among the major aims of planned development"...... Third Five Year Plan 1961-66.

> "Balanced regional development and dispersal of economic activity are closely interrelated. Growth and diversification of economic activity in an underdeveloped area can take place only if the infrastructure required for this is provided in an adequate manner" .... Fourth Five Year Plan Draft 1969-74.

While these national policy statements have given sufficient recognition to the problems of regional imbalances, there has been nothing noteworthy in terms of specific actions directed to reducing these imbalances.[21] There is no doubt that during the last 15 years, 49 Rural Industries Projects were initiated in the rural areas, several Industrial Development Area Schemes were taken up in selected backward areas, intensive campaigns were organized by the Office of the Development Commissioner for Small Scale Industries in a large number of places, and a number of large scale public sector projects were set up in the backward areas of the country. But these efforts have not touched even the fringe of the problem. Some of the facts which speak for themselves are the following:

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21. Some specific references of these policy statements are made in the Third Five Year Plan in connection with approaches to industrial location. These are the following:

    (a) As far as possible, new industries should be established away from large and congested cities.

    (b) In the planning of large industries, the concept of region should be adopted. In each case, planning should extend beyond the immediate environs to a larger area for whose development the new industry would serve as a major focal point.

The concentration of small scale units has continued in a few metropolitan centres of the country. Between 1952-64, 64.4% of the licensed industries were concentrated in the urban centers of over 100,000 population with 41.4% in the metropolitan centers of one million or more. The hire-purchase scheme for machinery and equipment initiated by the National Small Industries Corporation to assist the establishment of small scale industries has not made any dent in the backward areas. One of the recent reports that analyzed the effectiveness of hire-purchase schemes in different locations showed that about 60% of its assistance has been confined to the ten largest cities of the country. Further, the establishment of several large scale public enterprises with heavy investment outlays in the backward areas has not resulted in trickle-down effects as was originally expected. This was brought out by a study of the Town and Country Planning Organization, which reported that" ...although... these projects have been set up with due regard to the claims of backward regions, subject of course, to techno-economic feasibility, a number of ... problems have cropped up, which are tending to undermine the benefits from these projects and to create complications for future growth. This study gave several examples of "lack of coordination with the development of areas surrounding the project and the township and unbalanced

or lopsided development within the influence region of the project."[22]

On a more general plane, the government has invested between 42 to 55% of its total investments in infrastructure facilities such as roads, power supply, irrigation, education, housing, health and water supply. It is not known how much of it has gone specifically to the backward areas but still there are large parts of the country which are difficult to access, and have shortages of power, water supply and other social amenities.

The reasons for the relative ineffectiveness of these measures are not far to seek. These measures, besides being totally inadequate in relation to the size and magnitude of the problem, were not directed specifically to meet the problem of the backward areas. Conceived as part of the general development effort, their focus has been different and results anything but satisfactory.

Considering that the problem of backward areas requires a far more concerted effort and that previous attempts have been fragmentary, the Government of India set up a Working Group in 1968 to make a careful study of the question of regional

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22. Town and Country Planning Organization, Government of India, "Coordination of Large Scale Industrial Undertakings with the Development of Surrounding Areas," Mimeo. 1964.

imbalances and recommend fiscal and financial incentives for starting industries in the backward areas. The report of the Working Group - submitted in April 1969 - though in many ways a beginning of a sincere concern of the government to promote development in the backward areas leaves a whole host of questions unexamined.[23] The main drawback of the report, however, is that its recommendations seem to have been drawn up independent of the complex problems faced by the backward areas. It is an ubiqultous problem in Indian planning and this working group has not proved to be an exception.

6. An Approach for India

In attempting to spell out an approach for the backward areas in India, we continue - as in Section 4 - to assume that the main role of the government in stimulating development of the backward areas will be that of a catalyst rather than that of an investor in the directly productive activities. It means that the main instrument of the government for developing the backward areas will be direct and indirect incentives, formulated in such a manner that private investments are channelized into the backward areas.

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23. See Government of India, Development Commissioner (Small Scale Industries), Fiscal and Financial Incentives for Starting Industries in Backward Areas, Ibid citation. Also see, Background Paper on Prosperity Through Balanced Industrial Development, Federation of Indian Chambers of Commerce and Industry, New Delhi, 1970.

The problem of incentives in India is not as simple as in many other countries where the main responsibility of incentives rests with the central governments. In India, incentives are the chief concern of the State governments though subsidies and grants on selective bases are also provided by the central government. The State governments formulate their own incentive policies and programs, which are designed to speed up the process of overall economic development rather than the development of specific backward areas. The result is that the entire jurisdiction of the State qualifies for the incentive programs, and "areas of growth" are not distinguished from "areas of need".[24] Further, because the States formulate their incentive policies independent of each other, they turn out to be different in substance and coverage, and result in several anomalies. One of such anomalies that impinges upon the incentive policy is that the advanced States, because of their higher revenue potential, are able to offer a wide range and greater quantum of incentives for industrial development in comparison with

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24. Maharashtra State is the only exception which has introduced a package incentive scheme for the development of areas outside the influence zone of the highly industrialized cities such as Bombay and Poona.

the backward States. For instance, Maharashtra State with a higher per capita income, by offering a wide range of incentives, is in a position to accelerate her process of industrialization, while Uttar Pradesh for reasons of her improverished conditions cannot afford to do so. The result of these overall economic differences is that rich States become richer and poor States remain poor.

Another of such anomalies is that while rich States, at least theoretically, can consider and hopefully take up the development of their backward areas, the poor States have perforce to concentrate new industrial activities in their few developed centers. The possibilities, therefore, of the poor States developing their backward areas become remote and distant. These anomolies point to the fact that in designing incentive policies for the development of backward areas, it is important to take into account the entrepreneur's scale of locational preferences, which, generally speaking, looks something like below:

Entrepreneurs Scale of Locational Preferences

Scale of Preference	States	Districts
First Preference	Advanced	Advanced
Second Preference	Backward*	Advanced
Third Preference	Advanced	Backward
Fourth Preference	Backward	Backward

*These backward States do not include the remoter States of Assam, Tripura, Manipur and portions of Jammu & Kashmir. Typical of advanced States, are Maharashtra, Tamil Nadu, Gujarat and Punjab. Bihar, Uttar Pradesh, Rajasthan and Andhra Pradesh will fall in the category of the backward states. This scale of preference is essentially based on author's own informal interviews with different groups of people in over 30 Districts of different States.

It may be observed from above that the first order preference of the entrepreneurs is the advanced districts in the advanced States, followed by the advanced districts in the backward States. It is a very significant fact to understand that the entrepreneurs prefer to locate their activities in the advanced districts irrespective of the levels of development of the States, rather than in the backward districts of the advanced States. Thus, we find that the advanced districts of the poor States attract private investment while the backward districts of the rich States do not.

This explains why the advanced States have not been able to reduce the regional imbalances within their political boundaries, even though it is within their financial and administrative comprehension. This is also the single most important reason why the States have not formulated specific incentives programs for the development of the backward areas. The rich States, for example, are award of the fact that any specific programs for the development of the backward areas they might adopt are unlikely to yield positive results as long as the poor States do not alter their present policies of concentrating development in their advanced districts. The poor States also realize that their efforts to develop backward areas will collapse as long as there is the 'third-order preference' for investments open to the private entrepreneur. This is the predicament in which the rich and poor States find themselves.

The prevalent form of central assistance for the development of backward areas hardly helps resolve the dilemma of the State governments. According to the latest formula, central aid is given in the form of a 10% subsidy on the capital cost of the projects, and available to those public and private sector projects whose capital costs do not exceed Rs. 5 million or approdimately $667,000. By itself, or in conjunction with

the incentives offered by the State governments, it is inadequate to deal with the gigantic task of initiating development in the backward areas.[25]

It is clear from the above analysis that:

- incentive policies at the Centre and State levels do not distinguish backward regions from progressive regions;

- policies of the different States are unrelated and do not take into account the entrepreneur's scale of preference for investment purposes;

- role of the Center is not specifically keyed to providing any comparative advantage to the backward areas, and finally

- Centre does not assume any continual and direct responsibility for giving incentives for the development of backward areas.

These are the main missing links in the existing incentive policies and programs. Following suggestions to overcome these weaknesses are made in a preliminary form for consideration: these are in addition to the ones made in Section 4.

1. All areas - backward and advanced - should be eligible for the incentive programs of the governments on a <u>differentiated basis</u>. The criterion for differentiation in the incentive programs should be the suitability of sectors or activities for the advanced and backward areas. The rationale for this suggestion is that there are areas in particular levels of

25. Incentives in the form of lower interest rates offered by the financing institutions are not considered as part of the central government incentives program.

development which are better suited for some activities than for others. Thus, the central feature of this incentive policy is to identify those activities which will have a greater growth potential in the different types of regions. These inter-relations between sectors and regions then becomes the basis of the incentive policies. In other words, incentives should be given to those activities which fit into the developmental framework of backward and advanced regions as it is through this pattern that backward and advanced regions as it is through this pattern that optimality in the spatial distribution of activities can possibly be achieved. Further, it is a realistic intercombination of "space" and "sectors" that can subserve the national goals of growth and distribution in contrast with the innocuously formulated schedule of incentives which neither have any relation with sectors nor with the areas.[26] In short, the key factors in the formulation of new incentive policy or programs are (a) identification of sectors which are suitable for development in advanced and backward areas and (b) evolvement of incentive schedules to promote the sector-region matrix in an effective way.

2. What range and quantum of incentives should each State provide so as to attract private investment to its

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26. Indian planning is almost wholly sectoral, and despite continuous criticism, space as a factor in development is yet to find a recognized place. It, therefore, is no surprise that the sector-space matrix has not been actively thought out in the context of national and backward area development problems.

backward areas is a complex phenomenon in the Indian context. The chief responsibility for offering incentives, as stated earlier, rests with the State governments who in the present set-up have no effective links for evolving or coordinating any policies or programs of inter-State significance. This framework cannot ensure that the range and amount of incentives that the advanced States may offer for the development of their backward areas will offset the advantage of the advanced districts of backward States, the latter being the second order of preference on the entrepreneur's scale. Similarly, there is also no way by which the backward States can prejudge the amount of incentives that should be offered in order to offset the advantages of the backward districts of advanced States which is the third order of preference.

This dilemma is possible to be resolved if the Central government coordinates and adjusts the incentive policies of the State governments in such a way that the comparative disadvantages of the backward districts are adequately compensated by subsidies and fiscal and monetary incentives. Apparently in playing such a role, the Center itself will have to assume greater responsibility of continuing support for the development of backward areas. The unit of support will have to be districts in such cases rather than the

States though the incentives and subsidies may have to be channeled through them. It will constitute a significant departure from the existing practices and may raise problems of political acceptance. But if the Center supports the policy by offering to aid the backward districts in a significant way, the chances of its acceptance will be brighter.

In the strategy of development of backward areas, there often arises a question whether, within the backward regions, the focus of attention should be the "areas of promise" or "areas of distress." It is argued on one side that once the principle of developing the backward areas has been accepted then why should not the development start from the really distressed areas. On the other hand, it is stressed that in the first instance, only promising areas of the backward regions which have come to be known as growth centers, should be selected for development purposes.

This again is a vain controversy in the scheme of suggestions made. It has been pointed out that the basis of the incentive policy will be "sector-space matrix" for which the lowest hierarchical unit will be a district. Within a district, however, the location of any activity will be determined by its techno-economic and managerial feasibility. There is no suggestion that space-sector matrix

should also be prepared for small villages within the district boundaries.

In conclusion, it may be said that the crux of the crux of the suggestion lies in finding out a level and structure of incentives that will be effective in regions of different levels of development.

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APPENDIX A

INDICES FOR DETERMINING THE LEVELS OF REGIONAL DEVELOPMENT IN INDIA

Agricultural Infrastructure

1. Area under double crop per cent of net area sown
2. Gross area irrigated per cent of gross area sown
3. Households cultivating 0-5 acres per cent of all cultivating households.
4. Pure tenancy holdings per cent of all cultivating households.
5. Hired attached workers per cent of all workers at cultivation.
6. Cultivators and agricultural labouers per 100 acres of net area sown.
7. Cultivators and agricultural labourers per cent of rural working population.

Participation Rates in Traditional Sector

1. Male participation rate, 1961.
2. Female participation rate, 1961.
3. Males working in agriculture per cent of mail working populations, 1961.
4. Single and family workers in non-agricultural per cent of total non-agricultural workers, 1961.
5. Workers in household industry per cent of total working population, 1961.

Potential of Human Resources

1. Persons per sq. mile.
2. Females per 1,000 males.
3. Rural population per 1,000 of total population.
4. Percentage increase of population, 1951-61.
5. Immigrants per cent of total population, 1961.
6. Children 0.4 per cent of women aged 15-44, 1961
7. Crude literacy rate, 1961
8. Scheduled Tribe population per cent of total population, 1961.
9. Scheduled Caste population per cent of total population, 1961.

Distributive Trade, Manufacturing and Infrastructure

1. Workers in retail trade per 1,000 of total population
2. Workers in manufacturing per 1,000 of total population
3. Census houses used as business houses or offices per 1,000 of all census houses.
4. Census houses used as community centres per 1,000 of all census houses.
5. Census houses used as restaurants and earing houses per 1,000 of all census houses.
6. Census houses used as rest houses per 1,000 of all census houses.
7. Census houses used as school houses per 1,000 of all census houses.
8. Census houses used as medical institutions per 1,000 of all census houses.
9. Miles of surfaced roads per 1,000 sq. miles of area.

Organised Industrial Activity in the Modern Sector

1. Establishments run on electricity per cent of all industrial establishments,
2. Workers in registered factories per cent of all workers.
3. Whether headquarters town (1) generates own electricity or (2) is connected to grid or (3) both of (NE) none.

SOURCE: Asok Mitra, Registrar General and Ex-officio Census Commissioner for India, Census of India 1961, Volume I, Part 1-A (i) Text Levels of Regional Development in India, Manager of Publications, Delhi, 1965.

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Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with Special reference to Industries)
March 3 & 4 1972.

IDENTIFICATION OF BACKWARD REGIONS AND THE STUDY OF TRENDS IN REGIONAL DISPARITIES IN INDIA

By

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Conference Hall
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NEW DELHI

Identification of Backward Regions and the Study of Trends in Regional Disparities in India*

- by Miss Hem Lata Rao

The purpose of the paper is to build a weighted composite index of development for identification of backward regions** in India and to examine the trends in inter-State and disparities in sectoral and general level of development. In Index of development provides information and guideline for national fiscal and monetary policies, directly influencing the regional development. Such an index may serve as a basis for apportionment of national tax burdens or allocation of funds from the federal to the State governments. The problem of future growth pattern which investment imply can successfully be analysed with the help of an index of development, if such an index is built over a period of time.

Various Measures of Economic Development

In several countries different set of indicators are used to identify backward regions. In U.S.A. and Western European countries, regional unemployment and per capita regional income constitute the main criteria for the purpose of identification. Besides, unemployment, Industrialisation, life expectancy, productivity and so on are considered as indicators of Economic development.

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** By region we mean linguistic administrative units i.e. states.

In many empirical investigations identifying and analysing inter-regional disparities, differences in per capita income have been taken as the basis. These investigations highlight differences in the levels of development in the form of the per capita income of the respective states as compared to the national average. According to this approach, regions which enjoy higher per capita income are more developed than other states with lower per capita income. This basis of analysis no doubt succeeds in focussing attention on the extent of poverty but differences in per capita do not reflect the differences in real income and standard of living Myint * rightly cautions about the serious limitations of this approach. There are, however, certain difficulties in using per capita income as the criterion of economic development, particularly in a dual economy, the arbitrary valuation of certain activities, the inadequacy of converting state income statistics at national exchange rates and the welfare qualifications associated with changing composition of out put and the distribution of income.** Thus, on account of varying degree of monetization in different states, per capita income cannot be a good index of development. Besides, there are differences in concepts used for computation of national/regional income. The scope of goods and services included in national out put and their exclusion for calculating national income also differs. Moreover, changes in prices of goods and services included in the national income might deflate or inflate the income of various states. In India

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state income data are inadequate and uncomparable because the concepts used and methodology adopted for calculation vary widely between different states. To over come this lacuna many attempts have been made to estimate the state incomes for particular years. Only two comparable estimates of state income for the years 1950-51 and 1960-61 have been made, one by National Council of Applied Economic Research,[3] and the other by the Indian Institute of Public Opinion.[4] Recently Central Statistical Organisation[5] has also brought out some comparable state income figures for 1960-61 to 1964-65. Still much is to be done to bring out a systematic, comparable time series of state income.

In the absence of such comparable and reliable state income data, it is better to depend on several physical variables relfecting levels of activities and examine them separately and compositely to identify less developed and more developed areas and their nature of development. Such an attempt is made in India and abroad by many individual researchers and committees and Commissions.[6] But the methodology adopted for evolving indicators, suffers from subjectivity and arbitrariness. In any case they have not been quite successful in building objectively a weighted composite index of regional development. Simply taking physical indicators and to combine them together does not solve the problem of comparability unless the variables are weighted. Any attempt to attach weights to these indicators is found to be riddled with subjectivity and value judgement

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unless the weights are assigned scientifically.

The present paper attempts to filling up this gap by building up a weighted composite index of development to highlight the economic backwardness of the regions. The Statistical Technique employed to build up our weighted composite index of development consisted in finding out the 'Principal Components' of the group consisting of various variables and derive the implicit weights based thereon. The composite index is then built by combining various indicators whose implicit weights are already determined. The Technique applied here is known as 'Principal Component analysis' which is a branch of 'Factor Analysis'.

Factor Analysis was developed originally by psychologists in connection with the determination of mental factors from scores on various psychological tests. The primary purpose of the Factor Analysis is to reduce the original number of explanatory variables to a smaller number of independent factors in terms of which the whole set of variables can be understood. Factor Analysis, provides us with a simpler and more compact explanation of the regularities in the empirical results.[7]

As in Regression Analysis, Factor Analysis breaks down the original variance components associated with the variation of a set of other quantities. In Regression Analysis, the variables whose

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variations are decomposed in this manner is known as dependent variable. Thus by contrast with Regression Analysis, which is a study of dependence, Factor Analysis is a study of mutual inter-dependence.8

Another feature that distinguishes Factor Analysis from Regression Analysis is that in Factor Analysis the final explanatory variables are not observable magnitudes. They are rather groupings of the original variables into a number of clusters known as "Factors". Each 'Factor' is a linear combination of the initial variables. More specifically, each factor is an eigen vector of the correlation matrix among the original variables.9 The mathematical principles by which each faster is formed from the observable variables are as follows:-

1. Those variables that are most clearly inter-correlated are combined within a single factor.
2. The variables allocated to a given factor are those that are most nearly independent of the variables allocated to the other factors.
3. The factors are drived in a manner that maximizes the percentage of the total variance attributable to each successive factors (given the inclusion of the preceding factors).
4. The factors are orthogonal or uncorrelated.

A major aim of factor Analysis is to determine the coefficients - that relate the observed variables to the Factors. These co-efficients, which are referred to as Factor Loadings, play the same role in Factor Analysis as do Regression Coefficients in correlation analysis. Since the squared factor loadings represent the relative contribution of each factor to the total standardized variance of a variable, the sum for each variable of its 'squared factor loadings' (known as communalities) indicates the extent to which the common factors account for the total unit variance of the variable. Thus the role of the communality in Factor Analysis is analogous to the role of the coefficient of multiple determination, 'R^2' in Regression Analysis. Principal component Analysis is a branch of Factor Analysis. It follows essentially the same procedure but operates on a full matrix of correlation i.e. without the estimates of communalities in the diagonal employing the following statistical model:

$$Zj = aj1\,P1 + aj2\,P2 + \dots\dots\dots + ajn\,Pn$$

Where Zj is a standardized variable with Zero mean and unit variance, and aji are the coefficients of the Factors or Factor Loadings and P1, P2.... pn are, first, second and n^{th} principal components. "First principal component is that linear combination of the original variables which contributes a maximum to their total variance. The second principal component, uncorrelated with the first contributes a maximum to the residual variance and so on until the total variance is explained."[10] The purpose of the principal Component

Analysis is to reduce the large body of data so that a xaminum of the variance is extracted. Whereas in contrast to the Maximum variance Approach, Factor Analysis is designed to maximally reproduce the correlations.

The credit for developing a composite index with the help of Principal component Analysis, goes to Hagood,[11] Who employed this technique in regional analysis to delineate major regions of relatively greater homogenity. A few researchers[12] have used first and second and subsequent factors/components constructed out of a hetrogeneous group of variables in an international/inter-district comparison. But this method of taking more than two factors, has some short comings. Dr. M.N. Pal[13] rightly pointed out.

Principal components are by definition orthogonal or independent (uncorrelated) but in reality, the regional indices whether economic or physical, need not be independent. Naturally if the total explained variation is significantly high only for one or two factors/components, it is possible to have the correlation matrix partitioned by the concept of 'B' coefficients.[14] Such that two or more specific groups can be formed. One can take then two or more First principal components of the specific groups instead of First, Second and subsequent components of the aggregate group of hetrogeneous variables. This method has some advantages:

1. The obliqueness of specific indicators which may exist in reality, is taken into account, while orthogonal principal components computed from an aggregate group cannot represent oblique indicators.
2. The variables of specific groups are so partitioned and screened from the aggregate group that each of them measure the same group character and as such there is no ambiguity or absurdity in the interpretation of the first principal component of the specific group as a specific indicator, while the interpretation of each principal component which involves all variables of the aggregate group is very much subjective and difficult, all principal components evolved from the aggregate group of variables need not always be economically meaningful.
3. Specific indicators each of which involve a set of initial variables could meaningfully be combined for composite regionalisation by aggregating them possibly with some suitable weights attached while such a combination is not permissible when indicators are principal components, each of which involve the same set of indicators/variables.
4. The computional load is much reduced when first principal components are computed and then combined together.

Dr. Pal himself has constructed a composite index of development along the line suggested above. To construct a composite index he first built four group indices namely,

Agriculture, Secondary Sector, Tertiary sector and Urbanisation. He combined the last three group indices together and named 'non-agricultural sector' and finally he computed the composite index of development in the following manner:

$$I = w1 (\lambda 1 A) + W2 (\lambda 2 N)$$

Where W1 and W 2 are the variable weights in proportion of labour force engaged in agricultural sector and non-agricultural sector in the respective districts. A and N denote the combined indices of agricultural and non-agricultural sectors respectively and λ 1 and λ 2 are the constant ratio of agricultural and non-agricultural labour productivities to the general labour productivities of India in the respective sectors.

Along the line suggested above we also have constructed a composite index of development at the State level for the purpose of identifying backward regions. However, our work differs from that of Dr. Pal in following respects:

1. Our composite index is built at the State level, while his index is at the district level.
2. Our variables and sectors chosen for the purpose are also different.
3. He has taken only one point of time whereas we have taken three time points which enable us to study the trends in development vertically as well as horizontally.
4. The major difference lies in the final construction of the composite index. Like Pal, we do not build two

separate sectoral indices. Agricultural and non-agricultural, and combine them together with some suitable weights. Instead we have combined all the sectoral indices together and get the composite index of development.

Statistical Model:

To state the method more specifically let Xi be the ith variable and Xij be the value assumed by the ith variable on the jth observation. In our study variables are the agricultural, Industrial, Educational and Banking indicators. The observations are the various States. A particular Xij thus represents the scores assigned to the jth State on the ith variable of Sth sector and the first principal component is the linear combination of weighted variables. The equation then is

$$Fj = W_1\ X1 + W2\ X2 + \dots\dots\dots\dots + Wn\ Yn$$

Where 'F' is the first principal component and Wi are -Factor loadings or Coefficients of correlations between the first principal component and the variables. This first principal component itself is the index of development. Thus composite index 'Z' can be written as:

$$Z = W1 \frac{X1}{\sigma 1} + W2 \frac{X2}{\sigma 2} + \dots\dots\dots + Wn \frac{Xn}{\sigma n}$$

The variables are divided by their respective standard deviations to make the unit of measurement comparable. The principal component analysis helps deriving these Factor loadings or weights.

Our 'Z' is the linear combination of $Xi / \sigma xi$ which account for the maximum variance.

Empirical Study

To develop our model identifying and analysing inter-state disparities in development in India, we chose some 24 variables from four specific sectors.- Agricultural, Industry, Education and Banking. Initially we thought of including transport and Health Services also but due to inadequacy of relevant comparable data we could not do so. The four specific sectors and their indicators are given below:

Agricultural sector:

A1 = log 10(a1) agricultural output per lakh of population.

A2 = log10 (a2) agricultural output per worker

A3 = log 10 (a3) Gross area irrigated as percentage of gross area sown.

A4 = log 10 (a4) Consumption of chemical fertilisers per 1000 hectres; and

A5 = log 10 (a5) Mechanisation index.

Industrial Sector

I1 = log 10 (i1) No of factories per lakh of population

I2 = log 10(i2) No of factories per 1000 sq. km.

I3 = log 10 (i3) Percentage of workers in the total population.

I4 = log 10 (i4) " Industrial Employees "

I5 = log 10 (i5) Factory workers per 1000 sq. k.m.

I6 = log 10 (i6) Factory Employees per 1000 sq. K.M.

I7 = log 10 (i7) High voltage industrial power consumption. per factory. Kl. Watts per hour (Annual)

I8 = log 10 (i8) value added by manufacturers per capita.

Banking Sector

B1 = log 10 (b1) No of banks per lakh of population

B2 = log 10 (b2) deposits " " "

B3 = log 10 (b3) Credits " " "

B4 = log 10 (b4) Percentage of banks in the total number of banks in the country.

B5 = log 10 (b5) Percentage of deposits in the total deposits.

B6 = log 10 (b6) " " credits " " "

Education Sector:

E1 = log 10 (e1) Literates as percentage of population.

E2 = log 10 (E2) Scholars as " " "

E3 = log 10 (e3) Teachers as " " "

E4 = log 10 (e4) School going children " "

E5 = log 10 (e5) College going children " "

Before statistical analysis could be attempted the variables selected were plotted on a graph paper to find out the nature of the statistical distribution. The graphs, however, revealed these distributions to be highly skewed deviating far from the normal distribution. Therefore to minimise the possibility of statistical bias these variables are transformed logarithmically. These transformed variables are denoted by Ai, Ii, Bi and Ei where i = 1, 2, ...n.

The data relate to the years 1956, 1961 and 1965 since the data prior to 1956 relate to pre-reorganisation period. They are incomparable. Therefore, we started our analysis from 1956. In order to show trends we chose two more time points: 1961 and 1965. Such an index could be built for latest years if information regarding all the variables were available. The variables chosen for the study relate to 14 important states in India namely, Andhra Pradesh, Assam, Bihar, Gujarat, Kerala, M.P., Madras, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, U.P. and West Bengal.

Index of Development for the Agricultural Sector

For the purpose of constructing a combined index reflecting the regional development in agricultural sector, we initially chose nine variables/indicators. First four are listed above. Besides these four we chose, oil Engines, Electric pumps, tractors and Electricity consumption per 1000 hectres. But they had very insignificant correlation with other variables as the use of these modern equipments are still very limited in India. Therefore, instead of taking them separately, we constructed one index of mechanisation. This index has significant correlation with other variables of the sector. We also selected cultivable land per agricultural worker but ultimately omitted because of its low and insignificant correlation with other variables. Thus finally we selected the above mentioned five indicators. We wished to include 'marketed surplus' and 'use of high yielding variety seeds' also in our analysis, but again we could not do so due to inadequacy

I6 = log 10 (i6) Factory Employees per 1000 sq. K.M.

I7 = log 10 (i7) High voltage industrial power consumption. per factory. Kl. Watts per hour (Annual)

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of data.

Figures relating to total agricultural out put were not available, Therefore, we took the yield of principal crops and their respective all state average prices for the estimation of total out put in value terms. The prices, however, relate to the year 1960-61. Constant prices are taken for the purpose of comparison, horizontally and vertically. We collected data relating to these above mentioned indicators from various sources, Planning Commission, Ministry of Food and Agriculture, C.S.O. Publications and Fertilisers Statistics. The data for consumption of Fertilisers relate only to the nitrogeneous fertilisers. The nitrogen contents of various fertilisers like - Ammonium sulphate, Urea, etc. were found out and then added.

These data were grouped together by applying 'B' Co-efficient method on a hetrogenous group of 24 variables.

The correlation matrix of indicators of agricultural development are given in Table 1. This is a pooled correlation matrix of three years: 1956, 1961 and 1965.

Table - 1

1.	1.00000				
	0.68313	1.00000			
	0.17897	0.27504	1.00000		
	- 0.03311	0.27692	0.26323	1.00000	
	0.08647	0.38325	0.25075	0.43713	1.00000

****

The correlation matrix shows that all the variables are mutually co-associated. Though variable No. 4 and 5 do not show correlation. This indicates that, in our country, so far the use of chemical fertilisers and modern equipments are not very widespread*. These variables are considered for iteration purposes. Given this matrix, with the help of iteration, we worked out the final factor loadings. To have a Common denominator, the selected variables are divided by their respective standard deviations. Finally the combined index of Agricultural development is computed by the following equation.

$$IAjt = .61771 \frac{A1}{\sigma 1} + .84681 \frac{A2}{\sigma 2} + .56415 \frac{A3}{\sigma 3} + .5593 \frac{A4}{\sigma 4} + .65742 \frac{A5}{\sigma 5} \quad . (1)$$

$j = 1 \ldots\ldots\ldots .14.$

$t = 1956, 61, 65.$

This Sectoral Index 'A' had significant correlation with its constituent variables A1, A2, A3, A4 and A5. The coefficients were as high as .63, .81, .58, .50 and .65. These relationships were not only positive but also significant.

Table 2 presents the estimated value of combined index 'A' for the years 1956, 61 and 65 alongwith their corresponding ranks for the bench mark years. A careful perusal of the Table reveals that in 1956, as many as 6 States Punjab, U.P., Tamil Nadu, Andhra Pradesh and West Bengal are found to have an index value to be

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* The use of fertilisers has increased since 1965 especially in the irrigated areas.

greater than the other seven States - Bihar, M.P., Rajasthan, Orissa, Kerala and Maharashtra, less than the national average. However, Gujarat approximated the national average.

A rank wise analysis of the State shows that in 1956, Punjab recorded the highest index value followed by U.P. and Tamil Nadu. As regards the relative positions of the States as compared with national average. The value of the estimated index varies from 19.76 for Punjab to 13.78 for Orissa. The estimated value of the gap between the highly developed to the most backward State was about 5.98 in 1956. This variation in the index value provides conclusive evidence of the glaring disparities that existed in 1956 in the agricultural sector.

A careful perusal of 'A' 1961 and the ranks based thereon reveals that although absolute index values in 1961 got changed the relative positions of States remained more or less unchanged. This evidence was tested statistically by estimating 'spearman's' Rank Coefficient of Correlation between the ranks assigned, in 1956 and 1961. The Co-efficient of correlation worked out to be as high + .86 which is found to be statistically highly significant. Again Punjab was ranked first in 1961. This was followed by Tamil Nadu. Rajasthan, M.P., Bihar and Orissa, Constituted the last four in 1961 as in 1956. Even for 1965 results are not very different. Ranking of the States remained more or less the same. In this case also rank coefficient of

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in the first principal.

Component of this group, because of their very low correlation with other variables. [illegible] . Though the third had some correlation with other variables, it was very insignificant. It may be because Combined index measures absolute level of development. Whereas this indicator as an efficiency variable is a relative concept. Therefore, we excluded this indicator.

The indicators chosen are mainly compiled from 'the census of Indian manufactures 'Annual Survey of Industries and other C.S.O. publications, Population and workers data are estimated for the years 1956 and 1965. It should, however, be noted that the definition of 'factories' employed in the 'Census of Indian manufacturers' in 1956 is different from that in the 'Annual Survey of Industries'. Even for other years the concepts and coverage of factories differ in both the sources. Therefore these data are not strictly comparable. They may be used for cross-sectional analysis. Besides this, we also do not have adequate data on small scale industries. This may affect, the ranking of those states with small scale industries, though not significantly.

The index of development of Industrial sector is given in equation (2) which is the first principal component of eight variables. I1 to I8.

$$I_j = 0.78586 \frac{I_1}{\sigma_1} + .88767 \frac{I_2}{\sigma_2} + .96146 \frac{I_3}{\sigma_3} +$$

$$+ .93139 \frac{I_4}{\sigma_4} + .96093 \frac{I_5}{\sigma_5} + .94027 \frac{I_6}{\sigma_6}$$

$$+ .44728 \frac{I_7}{\sigma_7} + .91685 \frac{I_8}{\sigma_8} \ldots\ldots\ldots \qquad (2)$$

The corresponding correlation matrix is given in Table 3:

Table - 3

	1	2	3	4	5	6	7	8
1.	1.00000							
2.	0.82886	1.00000						
3.	0.78844	0.78310	1.00000					
4.	0.66902	0.70673	0.92173	1.00000				
5.	0.66537	0.90291	0.89993	0.85009	1.00000			
6.	0.58672	0.84391	0.84934	0.91023	0.96056	1.00000		
7.	0.04039	0.23621	0.33954	0.46211	0.41427	0.49623	1.00000	
8.	0.69711	0.70851	0.94094	0.85158	0.84932	0.79044	0.42962	1.00000

The elements of this matrix are quite high and as such the total variance explain by 'I_k' is considerably high, about 75 per cent. The coefficients of correlation of I with each of eight variables in order are .78, .88, .96, .93, .94, .45 and .92. Naturally each of the initial variable is very much reflective of the development in Industrial sector.

From Table 4 rank wise analysis of combined index of various states for different years can be prepared. In 1956 only 4 states, West Bengal, Maharashtra, Gujarat and Tamil Nadu (Madras) recorded an above average index value while other states like,

M.P. Rajasthan, Assam, and U.P. were below average. West Bengal ranked first in 1956 and it maintained its position in 1961 and 1965. Infact the four developed states maintained their high index values in 1961 and 1965 and the four backward states remained backward during all these years. This clearly indicates that the relative position of states remained unchanged. This fact is further confirmed by the coefficient of correlation worked out for different series. Rank coefficient came out to be as high as + .88 and +.96 for the years 1956-61 and 1961-1965. which are statistically highly significant. A cursory look at the table reveals that Kerala has improved its position from 9th to 4th during the period under study. But our explanaation for such a jump is sought as explained earlier in the difference in the concepts and coverage of factories adopted in 1956 and 1961. Kerala has large number of small scale industries which were not included in the earlier source. Despite these diffciencies the above analysis reveals that regional disparities did not show any significant decline in the industrial sector.

Education Sector:

Educational development is indicated by five indicators - namely literacy, number of scholars, teachers as percentage of population, school going students and college going students as percentage of total state population. Initially we chose, student teacher ratio and students institution ratios. But they showed in significant correlation with other variables. Student institution ratio was negatively correlated with other variables like

percentage of scholars in the total population. Hence we have dropped this indicator.

The index of Education development 'IE' is given in equation 3, which is the first principal component of five variables. E1 to E5.

$$IE = .91353\ \frac{E1}{\sigma 1} + .97685\ \frac{E2}{\sigma 2} + .73226\ \frac{E3}{\sigma 3}$$

$$+ .97511\ \frac{E4}{\sigma 4} + .72038\ \frac{E5}{\sigma 5} \qquad \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

The correlation matrix is given in Table - 5.

Table - 5

1.00000				
0.92012	1.00000			
0.58629	0.63592	1.00000		
0.89179	0.97887	0.64050	1.00000	
0.49329	0.65154	0.36776	0.67366	1.00000

The total variation explained by IE is about 76 per cent which is very high. The coefficients of correlation of IE with each of five variables in order are respectively .92, .97, .73, .96 and .72. Thus all these variables are highly reflective of educational development.

Table 6 reveals that Kerala occupies the highest place in respect of educational development followed by West Bengal and Maharashtra in 1956, by Mysore and Tamil Nadu in 1961 and by Assam and Maharashtra in 1965. Again Rajasthan, Orissa, U.P. and Bihar occupy the lowest place in all the three years. It clearly shows that in these states education is yet to be popularised. Education seems to go with the

general level of development and industrialisation.

As in earlier cases the relative positions of states showed no significant change. The rank coefficients are as high as +.86 and +.86. But some change has definitely taken place. One thing noticeable is that all the States, - developed and backward, have recorded a gradual increase in the index values. For instance index value of Assam has increased from 27.72 in 1956 to 33.81 in 1965.

Banking Sector

The banking system of a country can play a vital role in its economic development. Banks constitute an important institution attracting deposits, lending credits, growth of banking facilities indicates the extension of organised credits to developing sectors of the economy. For the purpose this paper, number of bank offices, deposits and credits in relation to population and to their totals are taken as indicators of banking development. The main source for these data is Reserve Bank of India. The index of banking development is given in equation(4) Which is the first principal component of 6 variables B1 to B6.

$$Ib = .78164\ \frac{B1}{\sigma 1} + .92582\ \frac{B2}{\sigma 2} + .95668\ \frac{B3}{\sigma 3} + .88557\ \frac{B4}{\sigma 4} + $$

$$+ .93411\ \frac{B5}{\sigma 5} + .93773\ \frac{B6}{\sigma 6}\ \ldots\ldots\ldots\ldots\ldots \quad (4)$$

The corresponding correlation matrix is given in Table 7.

Table - 7

1.	1.00000					
2.	0.72701	1.00000				
3.	0.71072	0.95961	1.00000			
4.	0.79417	0.67154	0.73062	1.00000		
5.	0.53434	0.84047	0.87019	0.81351	1.00000	
6.	0.54194	0.81331	0.90205	0.82077	0.97315	1.00000

The elements of this matrix are quite high and as such the total variation explained by Ib is about 82 per cent which is significantly high. The coefficient of correlation of Ib with each of the six variables in order are respectively: .78, .93, .96, .88, .93 and .94. Naturally each of initial variable is very much reflective of the development in Banking sector.

Table 8 shows the relative positions of each state. Maharashtra occupies the highest place in developments in banking which it has maintained in all the 3 points of comparison. Maharashtra is followed by West Bengal, Tamil Nandu and Gujarat. Orissa, Rajasthan, and Bihar have remained backward in the banking as in the case of other sectoral developments. Orissa is the most backward amongst the Indian states though its index value has improved from 4.031 in 1956 to 2.729 in 1965.

It seems from the above analysis that banking sector is highly correlated with Industrialisation. Industrially developed states like Maharashtra, West Bengal, Gujarat and so on have developed banking

sector and vice-versa. Regional disparities in banking sector have remained constant. The rank coefficients are as high as +.994 and .999 between the years 1956-61 and 1961-65. Rankwise analysis of the States show that during these 10 years the distance between the developed and backward States in banking facilities has remained more or less the same. As regards the relative positions we find that, as compared to national average the value of the estimated index varies from + 16.820 for Maharashtra to - 4.031 for Orissa. In most of the backward states the unorganised banking sector such as the indigeneous money lenders still constitute an important source of credit.

Composite Index of Development

So far we have analysed inter-state sectoral disparities. But that does not give us an overall picture of inter-regional development. Some states have developed agriculture and some others industries. Kerala is educationally developed. The problem is how to assess their general level of development. For this purpose we have built a weighted composite index of development.

The above mentioned four sectoral indices Ia, Ii, Ib and Ie are taken as the initial variables or indicators of general development. is given in the eqnation (5), which is the first principal component of variables, Ia, Ii, Ib and Ie. The corresponding correlation matrix is given in the Table - 9.

Table - 9

1.	1.00000			
2.	0.39941	1.00000		
3.	0.49890	0.78616	1.00000	
4.	0.23297	0.71316	0.56669	1.00000

The variables are seen to be mutually co-associated and the corresponding first principal component 'Z' explains about 67 per cent of the total variation. The equation for Z is:

$$Z = 0.2808\ Ia + 0.15216\ Ii + 0.18218\ Ib + 0.20897\ Ie \quad \ldots\ldots (5)$$

Co-efficient of correlation of Z with each of Ia, Ii, Ib and Ie are positive and as high as .61, 0.92, .89 and .79.

Our composite index 'Z' is highly correlated with available per capita income figures. The coefficient of correlation was worked out to be as high as .85.

A careful perusal of Table 9 shows that Banking, education, and Industry are highly correlated, this goes with the general hypothesis - higher the industrialisation higher will be the need for banking facilities and educated working force. Agricultural sector does not have high correlation with other sectors. It is obvious that education and banking facilities have not yet reached in the rural sectors extensively. Though agriculture does not seem to have high correlation with other variables, it has got good representation in the composite index 'Z'. The composite index 'Z'

has a significant correlation with Ia, i.e. the Co-efficient of correlation is as high as .61. For the purpose of building a composite index this much representation of agricultural sector is sufficient.

From Table 10 a rank wise analysis of the states could be done. The Table reveals that West Bengal, Maharashtra, Tamil Nadu, Gujarat and Punjab are the highly developed states and Orissa, M.P., Rajasthan, Assam and Bihar are the relatively backward states. The relative positions of the states remained same, except for minor change during 1961 and 1965. The rank co-efficient of correlation, in this case worked out to be as high as .99 and .98 respectively. This clearly shows that there is no significant change in the relative position of any State. One important thing noticeable is that all the States have recorded an increased value of 'Z' in 1961 and 1965, because of that the nation average was pushed up from 13.368 in 1956 to 15.961 in 1965. This reflects the general development which has taken place the last few years. The last column of the Table 10 gives the figures for co-efficient of variation.* (mentioned C.V) for each year. These coefficients of variation measure the regional disparities. However, this C V show that inter-state disparities have gone down during these years though the relative positions have remained same. It may be because of

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* Co-efficients of variation and co-efficients of concentration can be worked out for each sectoral analysis. This we did not do to economise in space.

a faster rate of growth in the backward States than in the developed States. For example Orissa recorded an index value of 8.378 in 1956 which increased to 12.754 in 1965, i.e. the increase was by 4.38 in Orissa. Whereas West Bengal recorded an increase from 17.259 in 1956 to 18.797 in 1965, i.e. an increase by 1.54 only. This is, however, a healthy sign. Disparities should reduce only through a faster rate of growth in the backward States and not by a decline in the absolute value of the indexes of the developed States. Only then a balanced regional development can take place in the real sense. The coefficients of variation declined from 19.76 in 1956 to 15.10 in 1961 and to 13.72 in 1965. It is interesting to find that this fall was more during 1956 and 1961 than during 1961 and 1965. The coefficients of variations records a decline in regional disparities, yet the decline is not very significant.

To high light interstate disparities and gauge whether a state has improved upon its relative performance, we work out 'concentration ratios also known as 'Co-efficients of concentration'. The value of co-efficients of concentration determines the relative position of each State vis-a-vis that of the country. If the concentration ratio is higher than unity that particular state may be regarded as being above the national average. On the contrary when the ratio is less than unity it reflects a state being below the national average. We worked out the grand mean of the years together for this purpose. This helps us in comparing the relative

position of a particular State in different years since we have one uniform 'mean' which is comparable, for all the years.

In the Table 11 co-efficients of concentration are worked out for 1956, 1961 and 1965. To economise on the length of the paper we shall not comment on how each individual States have fared in each year and how their relative positions have changed. A casual look at the Table reveals that Orissa, Bihar, Assam, M.P. and Rajasthan remained below national average during the bench mark years, and the developed states like, West Bengal, Maharasthra, Gujarat remained above average. Punjab was just near national average in 1956 and improved its relative position in 1961 and 1965 so that it became above agerage. However, the relative position of each state with respect to constant national average has improved.

The above analysis reveals that during the period under consideration, regional disparities seem to have decreased but not significantly. The relative positions, however, could not change. The backward states are still backward, but the extent of backwardness has definitely gone down. The disparities seem to have decreased mainly because of a faster rate of growth in the backward states than that in the developed states. But since the decline in disparities is not very significant, constant efforts are required to increase the rate of growth in relatively less developed states without hurting the pace of growth of developed region.

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Table - 2

Agricultural Development Index and Rankings

S.No.	States	1956	Rank	1961	Rank	1965	Rank
1.	Andhra Pradesh	17.621	4	17.594	5	19.278	5
2.	Assam	17.294	5	14.923	12	11.299	14
3.	Bihar	15.379	10	15.796	9	16.831	9
4.	Gujarat	16.624	7	17.162	6	20.025	2
5.	Kerala	15.200	11	15.737	10	15.741	11
6.	Madhya Pradesh	14.130	13	14.850	13	14.951	13
7.	Madras	18.814	3	19.937	2	19.437	3
8.	Maharashtra	15.946	9	16.647	8	17.138	8
9.	Mysore	16.595	8	16.812	7	17.502	7
10.	Orissa	13.788	14	14.660	14	16.501	10
11.	Punjab	19.769	1	20.643	1	21.290	1
12.	Rajasthan	14.214	12	15.146	11	15.021	12
13.	U.P.	19.034	2	19.873	3	19.397	4
14.	West Bengal	17.107	6	17.923	4	18.702	6
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Table - 4

Industrial Development Index and Ranks

S. No.	States	1956	Ranks	1961	Ranks	1965	Ranks
1.	Andhra Pradesh	10.077	10	12.359	9	14.997	9
2.	Assam	3.077	12	10.466	12	15.288	8
3.	Bihar	12.141	5	11.828	10	14.250	10
4.	Gujarat	17.906	3	20.862	3	21.010	3
5.	Kerala	10.247	9	20.126	4	20.296	4
6.	Madhya Pradesh	1.544	14	11.010	11	12.889	12
7.	Madras	16.182	4	18.134	5	19.902	5
8.	Maharashtra	19.245	2	21.798	2	22.862	2
9.	Mysore	10.286	8	14.130	7	16.478	7
10.	Orissa	5.161	11	7.096	13	11.708	13
11.	Punjab	11.207	6	14.134	6	17.325	6
12.	Rajasthan	2.925	13	5.504	14	9.320	14
13.	U.P.	11.076	7	12.822	8	13.582	11
14.	West Bengal	23.611	1	24.736	1	25.966	1
			.88			.96	

Table - 6

Combined Index of Banking Sector and Ranks

S. No.	States	1956	Ranks	1961	Ranks	1965	Ranks
1.	Andhra Pradesh	8.114	9	9.176	9	10.466	9
2.	Assam	0.240	13	3.202	13	4.610	13
3.	Bihar	4.443	12	5.883	12	6.477	12
4.	Gujarat	12.635	4	13.689	4	14.751	3
5.	Kerala	11.136	5	10.888	7	11.634	7
6.	M.P.	6.646	11	8.192	10	9.598	10
7.	Madras	12.710	3	13.692	3	14.471	4
8.	Maharashtra	16.820	1	17.975	1	19.174	1
9.	Mysore	10.094	6	12.028	5	13.470	5
10.	Orissa	- 4.031	14	0.668	14	2.279	14
11.	Punjab	10.003	7	11.395	6	12.679	6
12.	Rajasthan	6.803	10	6.875	11	7.836	11
13.	U.P.	9.510	8	9.926	8	10.516	8
14.	West Bengal	14.582	2	14.551	2	15.033	2
				+ .99		+ .999	

Table - 8

Education Development Index and Ranks

S. No.	States	1956	Ranks	1961	Ranks	1965	Ranks
1.	Andhra Pradesh	26.038	9	28.149	9	29.363	10
2.	Assam	27.728	7	30.544	6	33.810	2
3.	Bihar	22.199	12	26.713	10	27.944	13
4.	Gujarat	28.771	5	31.353	4	32.726	6
5.	Kerala	33.726	1	35.029	1	36.859	1
6.	M.P.	22.222	11	25.940	12	28.082	12
7.	Madras	28.268	4	31.019	5	33.087	4
8.	Maharashtra	28.933	3	31.462	3	33.460	3
9.	Mysore	27.808	6	33.465	2	31.861	8
10.	Orissa	21.321	13	26.477	11	28.397	11
11.	Punjab	27.488	8	29.765	8	32.321	7
12.	Rajasthan	20.336	14	25.919	14	27.035	14
13.	U.P.	23.006	10	26.429	13	29.900	9
14.	West Bengal	29.698	2	30.382	7	32.791	5
			+.86			+ .80	

Table - 10

Composite Index of Development

S. No.	States	1956	Ranks	1961	Ranks	1965	Ranks
1.	Andhra Pradesh	13.401	9	14.375	9	15.738	8
2.	Assam	11.163	11	12.749	12	13.404	12
3.	Bihar	11.614	10	12.889	10	13.914	10
4.	Gujarat	15.707	4	17.039	4	18.346	3
5.	Kerala	14.904	6	15.263	7	17.306	6
6.	M.P.	10.057	12	12.758	11	13.776	11
7.	Madras	15.968	3	17.334	3	18.037	4
8.	Maharashtra	16.517	2	17.841	1	18.776	2
9.	Mysore	13.875	7	16.055	6	16.534	7
10.	Orissa	8.378	14	10.851	14	12.764	13
11.	Punjab	14.823	5	16.243	5	17.679	5
12.	Rajasthan	9.925	13	11.759	13	12.713	14
13.	U.P.	13.570	8	14.863	8	15.678	9
14.	West Bengal	17.259	1	17.797	2	18.797	1
	Average	13.368	-	14.844		15.961	
	Standard deviation	2.64	-	2.24		2.19	
	Co-efficient of Variation in %	19.70	-	15.10		13.72	
			+ .99		+ .98		

Percapita income and index 1961 = .75

Table - 11

S No.	States	1956	1961	1965
1.	Andhra Pradesh	91	97	106
2.	Assam	75	86	91
3.	Bihar	78	87	93
4.	Gujarat	106	115	124
5.	Kerala	100	103	117
6.	M.P.	68	86	93
7.	Madras	108	117	122
8.	Maharashtra	112	121	127
9.	Mysore	94	109	112
10.	Orissa	56	73	86
11.	Punjab	100	110	120
12.	Rajasthan	67	79	86
13.	U.P.	92	100	106
14.	West Bengal	117	120	127
	Grand mean	14.72 (100)	14.72 (100)	14.72 (100)

Discussion Paper

SEMINAR ON

"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"

(with special reference to Industries)

March 3&4, 1972.

" REGIONAL IMBALANCES IN INDIA - SOME POLICY ISSUES AND PROBLEMS "

by

P. Prabhakar Rao

and

K. V. Sundaram

Conference Hall

INDIAN INSTITUTE OF PUBLIC ADMINISTRATION

INDRAPRASTHA ESTATE

NEW DELHI

REGIONAL IMBALANCES IN INDIA - SOME POLICY ISSUES AND PROBLEMS

by

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&
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I. Introduction

The continued persistence of regional imbalances (inter-state and intra-state) throughout Indian planning history has been one of the intriguing problems to our planners and administrators. This problem has attracted some active theoretical discussions,[1] empirical research and especially political concern[2] in recent years. Our successive Five Year Plans appear to have

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1. See. (1) Papers presented to the 52nd Annual Conference of the Indian Economic Association, December, 1969.
   (2) Prakasa Rao V.L.S. Sundaram K.V., Ramachandran R. & Tiwari V.K.: Regional disparities in India, Paper to the colloquium on Regional inequalities of development, IGU Commission Meetings, Rio-de-Janeiro, April, 1971.
   (3) Om Prakash Mathur: Backward Areas in Poor countries, Problems and Perspectives of development with special reference to India. Occasional Paper, Massachusetts Institute of Technology U.S.A. 1971.
   (4) Planning Commission (Govt. of India): "Regional variations in Social development and levels of living" Vols. I & II, 1969.

2. The turmoil and unrest experienced in certain pockets in the country, some dissenting voices heard in the political front seeking secession from the Union, and demands for either bigger states or for the division of the existing states may be cited as instances leading to such political concern.

recognised the complexity of this problem as revealed in the various pronouncements made in the plan documents.[3] But judging from the measures adopted and the results achieved, there appears to have been only some vague quest for "balance" or "equity" and very little appears to have been done until the commencement of the Fourth Plan to concretise this notion of 'balanced regional development'. In spite of the attention which this problem has attracted, it must be admitted that very little progress been made in formulating and testing a general explanation for inequality in the spatial distribution of national income and evaluating the efficacy of the different policies pursued at the various levels of national development. This paper is primarily oriented towards a discussion of the normative issues of policy intervention and planning, by examining critically the past efforts, their pitfalls, gaps and inadequacies and outlining certain alternative approaches and measures for the forging of new techniques and instruments towards better integrated approach to development. Such a discussion inevitably bears on some crucial aspects of spatial planning and investment decision-making, where in "lies the real sphere of applicability of the laws of nature and of economics".[4]

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3. It has been recognised in the Five Year Plans that regional equalization is a long-term goal and the advance towards it involves primarily building up in the poorer states, an infrastructure which will enable them in the course of time to realise their full development potential.

4. See the following quotation from August Losch: "Not in explanining that which has grown, but where man himself is the creator, lies the real sphere of applicability for the laws of nature and of economics he has discovered".
Losch A. (1954): The Economics of location, Yale University Press, New Haven, Conn.

The frame-work of our analysis is therefore laid on a broader canvas of the problem, including a discussion of related theoretica and conceptual issues.

II. Past policy measures and their role in reducing regional imbalances:

The solution to the problems of Inter-State and intra-state imbalances requires in addition to specific measures, multi-level coordinated efforts at central, state, sub-state and district levels. The Central government has a key role in this respect. The four directions in which the central government operates which have a direct or indirect bearing on the reduction of regional disparities in development (particularly inter-state) are through:

(a) certain development programmes reserved to the central sector.[5]

(b) the allocation of resources for development which the centre makes available to the states (Central assistance).

(c) special allocation of funds to backward areas.

(d) other measures intended to encourage private investments by means of adjustments in procedures and policies of national, financial and other institutions.

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5. Central Sector investments constituted about 60% of the Public sector outlays in the earlier plans and to about 50% during the Fourth Plan. Among these the sectoral programmes relating to Industry and minerals and Transport and communications constituted nearly three fourths of the total plan outlay.

(i) Central Sector investments:

Among the central sector investments, these under Transport and Communications are in the nature of capital infrastructure[6] (Railways, National Highway, Ports and Communications) that could be concentrated only in favourable regions, where returns could be maximum. In deciding their locations, the chief desiderata appear to be economic returns to investment rather than considerations like Inter-regional equilibrium and social objectives of development.[7]

In the case of central sector investments in industry, however, certain policies and measures have been adopted which have some relevance to the problem of regional imbalances. More specifically, these policies are :

(a) The industrial Policy Resolution of 1956 which emphasised the progressive reduction of regional disparities in the country through provision of infrastructure in industrially lagging regions "provided the location is other-wise suitable".

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6. Central assistance varies between 50-60% of the aggregate states' plan outlays in the different plans. A fixed proportion of this central assistance (30%) is in the form of grant and the balance (70%) by way of loans.

7. In the case of railways, the current practice is to take up construction of any new lines only when they are considered to become remunerative. There is no policy for opening up new areas and initiating development. Construction of National Highways is also influenced by existing levels of traffic. There are large area gaps and deficits in the present National Highway net-work. It cannot be denied that in an underdeveloped situation, Transport & communications provide the major lines of thrust for initiating changes and development.

(b) The policy of locating large scale industrial projects of the public sector - "corner-stone enterprises"-in backward states, subject to their techno-economic feasibility and viability.

(c) Application of various policy instruments of control and promotion such as licensing and the provision of fiscal and monetary incentives-designated as the "stick" and "carrot" methods in U.K. This also includes the methods of allocating industrial capacity on regional basis in certain industries like cotton textiles and power looms.

(d) Provision of land and other infrastructure in selected Industrial Areas.

Whether the industrial policies mentioned above have induced autonomous industrial development and led to the narrowing down of inter-regional income per capita differentials, geographic dualism or spatial polarisation has been specifically investigated in some studies.[8] The broad findings are :

(a) Whether a proportionally greater infrastructural effort has been made in industrially lagging areas and whether such effort has produced the anticipated results are questions on which contradictory findings have emerged. A comparison made by Hanson of some infrastructure expenditures of the various states with their levels of development suggests that "there was some bias towards the backward states in the Second Plan and that there is rather more in the Third". On the qestion of actual industrial development in the States, however, the evidence is to the contrary. Perhaps there are often intractable circumstances which triumph over good resolutions.

8. Hazari R.K.: Industrial Planning & Licensing Policy, Report to Planning Commission, 1967. Min. of Industrial Development (Govt. of India): Report of the Industrial Licensing Policies, Inquiry Committee, 1969. Govt. of India: Report of the Monopolies Inquiry Commission 1966.

Hanson A.H.: The process of Planning, A study of India's Five Year Plans (1950-67) Oxford University Pr 1966.

(b) The capital intensive industrial projects in the Public Sector located in industrially backward areas have not produced the anticipated spread effects and led to the growth and diversification of the regional economy. The failure of ancillary and other industries to grow around major industrial enterprises like Steel has attracted much attention.[9] Our experiences suggest that there are limits to the extent to which location of large scale industrial projects can achieve the largely social objectives implied in the pursuit of a more even regional distribution.

(c) Certain policy instruments of control and promotion pursued by the government do not appear to have been sufficiently/selective from an areal point of view with the result that they have not contributed much towards the fulfilment of the 'balanced regional development' objective. The official committee[10] which enquired into this aspect of the problem has pointed to the absence of a regional perspective development plan to guide decision-making in this regard.

(d) A policy of simple earmarking of sites for Industrial Areas with the provision of needed infrastructure and then relying on the private investor to build has proved a gamble in many instances e.g. Bhilai and Jamshedpur.

Thus our evidence relating to the articulation and effectiveness of the above policies points to the existence of some barriers, perhaps too great to carry the growth stimulus into the

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9. There is increasing recognition that the development of small ancillary industrial units must be integrated with and fitted into the pattern of industrial growth of the large-scale sectors through deliberate planning for a high degree of dependence between the bigger "Parent" units and the smaller ancillary establishments. Government of India has laid specific stress on the State Governments for planning of ancillary industries clustering under the umbrella of larger units to produce parts, components and sub-assemblies required by "Parent" units.

10. Government of India: Report of the Industrial Licensing Policy Enquiry Committee 1969.

relatively under-developed areas. The reasons for this may be many and perhaps difficult to identify in any conclusive sense. One of the fallacies underlying some of these policies is the tacit assumption that economic development is synonymous with the establishment of industrial projects and the magnitude of the investments thereon. A closer analysis however shows that the establishment of such projects does not necessarily bring up the economic growth of the state relative to the investments involved. (See Table I in Appendix). For instance, Bihar, Madhya Pradesh & Orissa accounting for a significant proportion of central investments during the Plan periods have still per capita incomes lower than the national averag On the other hand, Haryana and Punjab with comparatively low central investments in industrial projects have per capita incomes substantially above the national average. Maharashtra and West Bengal whic have attracted substantially large private investments have per capita incomes lower than that of Punjab. So is the case with Tamil Nadu which has been classified as another industrially advanced state. Experience in other countries has also pointed to the irony in the use of capital investment inducement as an instrument in depressed region policy".[11]

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11. Alonso. W: "Industrial location and regional policy in economic development"- Working Paper 14. Deptt. of City and Regional Planning and Centre for Planning & Development Research, Institute of Urban and Regional Development, University of California, Berkeley, 1968.

Apart from fallacies, certain contradictions in our national policies have also tended to lower our performance on the industrial front. Among them particular mention may be made of the effects of certain policies like the one meant to introduce what are in effect, "postage stamp rates" for certain critical industrial raw materials like cement, steel and coal, which have tended to negate the location advantages of any particular place. Lefeber[12] has drawn attention to these contradictions and made a powerful plea for the application of a more rigorous criteria to regional investment choices in accordance with a rationally adjusted pricing mechanism. In his opinion; in developing countries like India, policies seeking to meddle with the pricing mechanism during the very early stages of economic development tend to nullify whatever competitive advantages that they may possess on account of their richness of resources in men and material.

(ii) Allocation of Central assistance to States:

One of the powerful means through which the Central Government seeks to influence the development scheme in the states is through the allocation of resources which is in its hands. The method of determining the quantum of assistance to the different states has vried for each plan period. An analysis of the extent of dependence of States upon central assistance during the three plans shows that in general, the share of central assistance has

12. Louis Lefeber: "Regional allocation of resources in India" - in Friedmann and Alonso: Regional Development & Planning - A Reader- The M.I.T. Press, Cambridge 1964.

been smaller in the comparatively better-off states and larger in the case of poorer ones. (See Table 2 in Appendix). During the Fourth Plan, the Planning Commission has introduced, what is believed to be a more rational formula[13] linking Central assistance to various criteria like population, per capita income, tax effort, outlays on large irrigation and power projects and special problems But judging from the results, however, the formula does not appear to have produced the intended effect.

Even under the revised formula, the per capita central assistance to Bihar and Uttar Pradesh (two most backward states) is understood to be below the average central assistance to all states. The question of establishing proper decision criteria for regional disaggregation of investments needs a more thorough-going research.[14] Such investigation needs a spatial orientation - an

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13. This formula gives the following weightage to the various desiderata: Population-60% Per capita income for States below the national average - 10%: Tax effort in relation to per capita income-10%, Outlays required for selected continuing irrigation and power projects costing over Rs.20 crores each -10% existeance of specified special problems in the States-10%. The formula was intended to benefit the relatively over-populated and backward states like Kerala U.P. & Bihar, the States with per capita incomes below national average like Bihar, Kerala, M.P., Orissa, Rajasthan and U.P. and states with special problems like Assam, J & K and Nagaland.

14. The crucial significance of this problem and the need for promoting research in this field has impelled the United Nations Research Institute for Social Development to include this subject in its programme of research on regional development.

analysis of the present and prospective spatial structures - which is very much lacking today.[15] Perhaps some prognostic elements as well as coefficients reflecting the infraeffects in a region must also be brought into the allocation formula to make it conform to realities and needs. Without adequate research into the problem, it would be difficult to spell out the various criteria in greater detail.

(iii) Special schemes to backward areas.

The three broad categories of measures adopted at the national level for stimulating development in backward areas are :

(a) Identification of backward states and of backward districts in the States:

(b) Designation of two districts in backward states (one in others) for special assistance schemes[16] and provision for direct stimuli (subsidy) for attracting or expanding industrial activity and indirect stimuli such as concesional finance, in those districts.

(c) Technical assistance by the Planning Commission for the formulation of District Plans.

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15. The Mid-term appraisal of the Fourth Plan appears to be conscious of the need for such an exercise. See The Fourth Plan Mid-term appraisal Vol. I P.55.

16. The special assistance schemes are: (i) a 10% subsidy for the location of private projects whose capital investment does not exceed Rs. 50 lakhs. (ii) the provision of transport subsidy (50% of transport cost) applicable to the states of Jammu & Kashmir and north-eastern states for bringing in raw materials from outside the State and taking out finished products to other States: (iii) Other specific measures include the provision of concessional finance to industrially backward districts, setting up of a Rural Electrification Corporation for advancing loans for financing electrification projects etc.

The designation of just one or two districts in each state for special assistance hardly touches the fringe of the Backward Area problem. Backwardness is a wider spatial phenomenon, characterised by a whole spectrum or range of regional differentials not just a dichotomy. The problem needs to be handled on a regional scale, not in a piecemeal fashion in isolated pockets, as is being done at present. Further the proposed outlays for special assistanc are far below the "critical minimum effort" needed to bring any backward area to the take-off-stage. In the theoretical discussion of the problem according to Myrdal, the 'spread effects" produced by such 'little drops' of investment in limited spheres of activity will hardly equal or meutralise the 'back-wash' effects generated, leading to lasting inter-regional unbalance in the areas, which in itself becomes a part of the "inter-locking relations by which, in the cmmulative process, poverty becomes its own cause".[17] There is also a fallacy in seeking to find a solution to the problem through concentrated promotional measures of subsidy and concissional finance for industrial development. It is a wrong notionthat industry can grow where everything else fails to grow. Even centrally planned economies like Pland[18] have realised that the development of a regional economy cannot be automatically induced by the mere location of a few industrial units in

17. G. Myrdal: Economic Theory and Underdeveloped Regions, London, 1957.

18. Kuklinski A: Progress and change in the industrialisation of Poland, Geographica Polonica, Vol. 3 pp.57-70.

backward areas. A partial approach to the problem, such as the one that is presently attempted can hardly take us anywhere near its solution, as backwardness in a developing country is often characterised by a "syndrome of collective povery", which needs an "arsenal" of measures for its effective solution. The special programme for these areas should include not merely assistance to industrial development, but also for the improvement of various infrastructural facilities (both economic and social), besides other measures to stimulate the motivation and participation of the people in the process of economic and social change, so that they may take advantage of the new employment and income opportunities created.

The order or magnitude of effort[20] needed to stimulate developments in a backward area could be inferred from the Mezzogiorno experience of S. Italy.[21] The initial emphasis on this

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20. Rosenstein Rodan has likened the launching of a backward area into a self-sustaining growth to the take-off of an airplane from the ground. "There is a critical ground speed which must be passed before the craft can become air-borne". Paul Rosenstein Rodan: "Notes on the theory of the Big Push(M.I.T. centre for International Studies, March, 1957.

21. See PEP: Regional Development in the European Economic Community, Allen & Unwin London, 1962.

Rodgers A: Migration and industrial development: The Southern Italian experience, Economic Geography, Vol. 46, PP. 111-135.

Newcombe, V.Z.: Cr ating an industrial development pole in Southern Italy, Journ. Town Planning Institute, Vol. 55, PP. 157-161.

project (started in 1950) was on provision of infrastructure investment in roads, railroads, watersupply and other necessary services as well as in the improvement of agriculture. As the results of such investments did not come up to expectations, a policy of incentives was introduced in 1957 and nine main "development areas" were designated as well as a system of growth points. This was combined with the use of public industry to create a propulsive effect. At the end of the 1960's, it became clear that these policies tended to favour only capital-intensive projects and failed to produce a spread effect, despite the advantage of propulsive industries subject to state control. In its search for a more effective approach to industrialisation, the government introduced the concept of "contract programming" in 1969, involving the coordination of future public and private investments in the south so as to achieve most efficiently, the economic and social objectives of the current national five year plan. It is too soon to judge the regional impact of the new measures. What the South Italy ex erience proves, however, is that the economic reconstruction of an area cannot be attained by a few half-hearted measures, but requires steady and sustained effort on a massive scale, wherein a large measure of government involvement in the process of development is also essential.

So far as the use of the provision of incentives as an instrument of public policy is concerned, these measures have not been sufficiently discriminating or selective both from an areal as well as industrial point of view. In many countries, such policies

are tied to a 'growth point' concept. But it is not consciously attempted so in our country. Mathur's[22] analysis of the problem has revealed the following missing links in our existing incentive policies and programmes:

- "Incentive policies at the centre and State levels do not distinguish backward regions from progressive regions.
- Policies of the different states are unrelated and do not take into account the entrepreneur's scale of preference for investment purposes.
- Role of the centre is not specifically keyed to providing any comparative advantage to the backward areas; and finally
- Centre does not assume any continual and direct responsibility for giving incentives for the development of backward areas".

III. Alternative approaches to the problem: Theoretical and empirical findings:

The above examination has served to highlight the complexity and range of issues involved, the elusiveness of the problem and the governmental measures. In an attempt to find a solution, it is necessary to take an over-view of the various policy tools available to resolve the problem against a backdrop of theoretical and empirical support as to their validity in our socio-political context.

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22. Om Prakash Mathur: Op cit.

Such an analysis is necessary, as a frequent criticism against public policies is that they are often based more on the intuitive appeal which those policies had for planners and administrators than strictly on the theoretical and empirical findings.

In all discussions on formulation of alternative policies and strategies to reduce regional imbalances from a national point of view, the central question is whether investments should be spatially concentrated in the already fairly developed areas or in potential centres of development in the large backward hinterland. Both Myrdal and Hirschman agree that development makes for more efficient spread effects.[23] However while Hirschman agrees in favour of producing geographical imbalances through the creation of development centres, Myrdal takes the opposite stand that the mechanisms for spread effects should be strengthened from the outset. In discussion of the choice between these mutually exclusive strategies, it is generally assumed that conflicts exist between the the goal of national growth and that of interregional equalisation; if there is a possibility of resolving these conflicts

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23. Hirschman holds the optimistic view that in the long run, external diseconomies of development centres together with complementarities will assure a spontaneous spread of development. Myrdal holds a more pessimistic view of the possibilities for such spontaneous effects and favours the setting up of opposite counteracting forces to the backwash effects.

it is only in the long run. Kuznets[24] empirical guesses and Williamson's[25] through-going empirical investigation through corss-section approaches and time-series analysis suggest that there is a systematic relation between national development levels and regional inequality or geographic dispersion. A more recent study by Hermansen[26] based on a model approach suggests that apporpriate choices on spatial investments can be made only on the basis of analysis related to specificnational development goals and that the time horizon is apt to play an important role in the choice of strategy.

IV. Application in the Indian context:

Looking at the Indian problem in this context, there seems to be no cause to feel unusually alarmed or be pessimistic about the regional imbalances that have cropped up in the country during the planning process. In fact, it would be a mistake to minimise the present significance or the potential value of the processes of economic transofrmation which have been initiated so far. Looking at the development trajectory that has been traced by our Five Year Plans through the last 20 years of planning, our economy can no

24. Simon Kuznets: Quantitative aspects of the Economic Growth of Nations VIII-Distribution of income by size. Economic Development and Cultural Change XI No.2, Part II, (Jan.1963).
25. Williamson J.G.: Regional inequality and the process of national development: A description of the patterns. Economic Development and Cultural Change Vol. XIII, July, 1965.
26. Hermansen T: Interregional allocation of investments for Social and economic development, An elementary model approach to analysis, UNRISD, Geneva, Report No.70. (1970).

longer be considered as resting on a weak or unstable scaffolding, both in an economic and socio-political sense. In terms of achievements, we seem to be placed in the right sequence of an evolutionary development process andproperly poised for taking the next steps in planning, in which the spatial strategies must play an increasingly important role. It seems now essential to follow up this "development continuum" to its logical end, so that the "reverse flow" envisaged in the theoretical formulations of the problem can follow.

Both efficiency and equity criteria must be considered simultaneously in the inter-regional allocation of investments. The problem is essentially one of determining the 'right' point of balance between the concentration and dispersal of investments. To aid in such decision-making, a series of policy measures are needed at the national level, which must be again supplemented by various other measures taken at other levels, below the national level.

V. <u>Logical steps for an alternative approach</u>:

In the first place, it must be noted that no blanket approach to the solution of the problem of regional imbalances is possible or feasible. Different solutions and strategies must be worked out to suit the particular geographical, demographic and structural situation prevailing in each context. This does not, however, mean that each small unit area of the country has to be treated as an isolated entity for the formulation of suitable development strategy/policy. Indeed this is not possible at the

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national level. At the operational level, this could be done only by regionalising on problem lines. "Attention to problems on a regional scale provides a means of counteracting centripetal forces inherent in economic and technological development which tend to widen the existing disparities between one part of a country and another.[27] Therefore a regional approach to the problem at the national level is inescapable.

Secondly, it must be recognised that the problem of regional imbalances has two facets or aspects viz: 'the spatial polarisation of activity' and 'backwardness' which are like two sides of the same coin. In order to ensure the success of the efforts made, governmental measures must bear on both aspects of the problem simultaneously. In the case of Backward Areas, a further classification of areas on problem lines would be necessary for a better understanding of the factors affecting the productivity, welfare and growth of the various areas and to frame appropriate regional policies at the national level. At present, such regional policies and strategies are non-existent, as programmes are approved on a project-by-project basis. Many countries in the world having backward pockets have realised this need and adopted classifications

27. The Regional factor in economic development-Policies in fifteen industrialised OECD countries-OECD PARIS 1970.

appropriate to their national context[28] and formulated suitable regional policies on this basis. Taking note of the range of problem characteristics in our country, a broad classification into (a) Structurally backward areas, (b) Underdeveloped but resource rich areas (Development frontiers) and (c) Special problem areas on account of natural causes (flood, drought etc.) tribal concentration or 'depressed areas', may perhaps provide a general framework.[29]

A realistic approach to the problem at the national level has to go beyond the mere identification of backward areas, but also take note of (a) their problem characteristics as well as the scale and severity of these problems. (b) Identify the barriers for economic, social and cultural progress and (c) formulate suitable strategies of development. The emphasis of such strategy has to be on improving the regional comparative advantage by investment in those sectors for which it has maximum potential. While the scale

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28. See OECD. : The Regional Factor in Economic Development Op. cit. This report has for analytical purposes, distinguished between underdeveloped, undeveloped and reconversion areas in the context of the Western countries. For the United States, Chintiz has worked out a series of seven models to convey the range of problems encountered in the distressed areas. Kuklinski mentions three types: Underdeveloped, depressed and over-conjested. Kulklinski.A.R.: Regional Development, Regional Planning, Problems and issues. Regional studies Vol.4 pp. 269-278 (1970).

29. This classification may be further refined, if necessary.

and the nature of the policies to be adopted are a matter of judgement in the light of particular circumstances, we may broadly take note of a few policies which have been found useful in different contexts and situations. They may be listed as follows:

i) Policy for development of infrastructure.
ii) Policy for development of propulsive mechanisms.
iii) The growth centring policy.
iv) Policies for concentration.
v) Policy of promotional measures and
vi) Transition policies.

The first policy is based on the assumption that regional inequality persists because of the barriers to trade and factor flows and lubrication of inter_regional trade and factor mobility would tend to produce the necessary equalibrating effects. The second policy refers to the method of imparting a 'trigger effect' to the economy through the establishment of corner-stone enterprise. When combined with some special measures of large scale coordination of public and private developments, it ma serve as a more effective instrument for regional economic revival. This policy must however be guided by techno-economic considerations. The growth centring policy represents a new trend in regional policy in many countries today whereby, following the designation of "development areas", a further spatially selective policy is adopted to encourage industrial growth in places having some "ignition potentials".

Such a policy provides for dispersed concentration of investments. By a suitably conceived hierarchy of centres, the policy could be used to manipulate interregional imbalances (growth poles) as well as intra-regional imbalances (growth centres).[30] The fourth set of policies are meant to tackle the problems of congested regions e.g. the 'centre-peripery' problem confronting metropolitan areas and include not merely negative but also positive policy measures. The fifth policy refers to a bundle of measures conceived for providing direct and indirect stimuli to backward areas e.g. through subsidies, concessional finance and other incentives. The need for making such policies sufficiently spatially and sectorally selective to produce the intended benefits has been indicated in our earlier discussion. The sixth policy, known as 'transition policy' is particularly needed for promoting the development of stagnant areas in extremely low level of cultural development, like certain tribal areas in our country,[30-a] which have to make a

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30. Town and Country Planning Organisation (1970): The role of growth focii in Regional Development.

30 a. In such areas, the main thrust should be on social investments. Social investment must be viewed as a toll of economic growth and not simply as an accommodation to economic growth.

large leeway to come to the same levels of development as other parts of the country.[31] An important emphasis in such a policy is the conception of transition as a quick evolutionary process to be attained through the adoption of special telescopic devices[32] by which the members of the society may be made to leapfrog certain stages of development altogether.

It may be noted in the context of the above policies that in any particular situation, a suitable permutation and combination of policies with appropriate emphasis would require to be adopted to realise the major goals of planning.[33] It is the totality of independent policies acting in a concerted fashion (each supplementing and complementing the other) that would determine the eventual outcome, instead of the power or influence of any single or isolated policy.

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31. Such a Policy has been advocated for Bastar district(Madhya Pradesh, India) See Sundaram K.V.: A study of Bastar district with special reference to spatial Organisation and problems of development in R.P. Misra, V.L.S. Prakasa Rao & K.V. Sundaram: Growth Poles and Centres in Regional Planning and development in India-UNRISD/70/C.58, Geneva 1970.

32. Attempts to telescope in some spheres of activity may sometimes face formidable obstacles. According to some, even where such methods are feasible the "buying time" may involve substantial costs.

33. Broadly these goals are: Economic growth, full employment and social equality.

Although the motivation for regional policies at the national level comes from the existence of problem areas, they must cover other areas also, which may have their own problems or may well show symptoms of depression in the future. In the ultimate analysis, Regional Policy points to the optimum utilisation of resources and factors of regions' economic growth and ensures rational interregional proportions in the development of national economy. From this discussion, it is very clear that at the national level, we should not simply rest content with the application of allocative instruments and designation of backward areas only. While these are very necessary, they have to be supplemented by regional policies which impart an innovative character to planning at the national level. Indeed, it appears from various considerations that we have now reached a stage in our national planning when regional policies should guide the development strategy at the sub-national levels.

VI. <u>Complementary measures for operational purposes:</u>

Once this principle is accepted, then it must be noted that certain operational adjustments would become necessary for the regionalisation of the national plan within the context of multi-level planning and decision making. Such adjustments would become necessary not only for the formulation of plans as such, but also for the task of coordinating decisions of different spatial scope.

In fact, the present central assistance allocation procedures[34] could be used to make the plan-making function come close to territorial decision-making, although this is not now accompanied by adequate preparation at the sub-national and sub-state levels.

Greater attention to the element of space in our national plan, as well as inter-state regional planning, wherever necessary, are absolutely essential if we have to introduce any coherence in our planning effort. At the sub-state level also, there is a need for horizontal coordination of plans. It must be noted in this context that some special administrative, consultative and coordinative arrangements for Integrated Area Development planning have already come into existence in certain parts of the country[35]

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34. From the commencement of the Fourth Plan, the central assistance is being given in the form of block grants and loans directly to the states, which gives them a greater freedom and initiative in the formulation of schemes and programmes.

35. The Development Corporations set up in Maharashtra State for Marathwada, Vidarbha, Konkan and Western Maharashtra regions cover the entire state. The Rayalaseema Development Board and the Telengana Development Committee in Andhra Pradesh, the Development Authority for Chota Nagpur and Santhal Parganas in Bihar, the Rural Development Board and Special Advisory Committee in Punjab and the Hill Development Board in Uttar Pradesh are other examples. Among the consultative and coordinative arrangements instituted at inter-state level, the planning efforts initiated for the National Capital Region and the South-east Resource Region must be noted as important developments. But at the same time, it must be noted that a bite here and a bite there will not solve the problem fully. A more comprehensive approach is needed.

which points to the increased awareness for regional planning. It must be noted here that there is a strong case for the setting up of Planning machineries at Supra-district level in all states. In spite of all that has been done since the Second Five Year Plan to promote planning efforts at the district level, district planning is still a weak o eration and leaves much to be desired. The problem of finding suitably qualified planning personnel to perform the planning tasks in the 300 and odd districts of the country and the cost involved in such effort would perhaps make this a difficult task at this stage of our economic development. The implication is that we would never be able to produce anything like a satisfactory plan at the district level for a long time to come. Instead, if planning could be undertaken for a group of interrelated districts (making a total of around 50 regions) it has the great advantage of making the pooling of scarce talents in some well-equipped planning organisations possible. Further the are a number of area-wide problems which are not amenable to treatment at the district level, which could more appropriately be handled at a higher spatial level. Perhaps activisation of the Division as a planning region would be useful step in this regard. A revamping of our administrative machinery to this end is well worth attempting. It would arouse the consciousness for a regional approach to planning at all levels and would ensure the formulation of better integrated plans.

VII. Some dilemmas in regional development planning:

When a multi-level planning structure evolves as envisaged above, the need for coordination and integration at the various spatial levels of planning becomes of paramount importance. This is required at every stage in the planning process - during the identification of problems, for the formulation of programmes, for devising fiscal controls, while making allocations and for arranging a system of feed-backs as guide to the replanning process. This can be attempted only in the presence of a sound planning machinery at each level. Very often integration is loosely talked about, but nothing is really achieved in practice. In many instances, 'integrated development' has only meant getting various departments together, but not really integration at the activity levels. On the evaluation side particularly, our planning has remained relatively weak. Evaluation has not been conceived as a continuous process. It is attempted very ofte only when something goes wrong or fails to materialise. It is not comprehensive enough covering all development sectors and plan programmes. In some sectors, e.g. the private sector, the machinery for feed-back and evaluation is rather weak. Also wherever evaluation is attempted, the appraisal is weak in relation to costs and benefits, often leading to distortions in our priorities. As a matter of fact, in a country subject to

controlled development through regional policies and regional planning, as we have envisaged, cyclical economic movements and changes in economic and social structures would take place during the planning process. The whole spectrum of change would be largely governed by the management of the economy on a broad scale. It is necessary that a very careful watch over the progress of our plan achievements is to be kept during the stage to see that such changes which materialise conform to the expectations in the plan both qualitatively as well as quantitatively and that no serious imbalances occur in the short run. All these imply greater and more serious assessment and evaluation of the impact of our policy measures. The evaluation that is undertaken must be a continuous exercise and not just sporadic and uneven attempts like the recent midterm appraisal of the plan. In the planning process itself. there are several knotty problems which have to be carefully tackled. Once decision is made in the allocation of public funds between major sectors, other difficult problems of choice within sectors and subsectors remain, like project choice, project timing, sequence and combination, project location and project linkages. The lags in arranging for 'efficient sequences' during the development stage in the past have resulted in many a wasteful effort and idle investment. In many fields, if development effort is not supported by complementary action in related fields, it would tend to enlarge existing disparities.

Even with regional policy formulations at the national level and regional planning at the regional and sub-state levels, these problems will remain. To tackle these problems, education and training and retraining of planners must be oriented toward efficient use of resources, development of decision-making ability and motivation for change and a suitable organisational structure established for bringing this about.

VIII. Summing Up:

In the present paper, an attempt has been made to go into the entire gamut of policy issues bearing on the problem of regional imbalances and to suggest some modifications and improvements. It has been stressed that our national economic policies must have regard not only to the economy of the country seen as a whole but also to the disparities between various regions. To guide deliberate action to bring about a more even economic and social development in different parts of the country, specific regional policies are needed at the national level.

Flowing from such regional policies, some complementary measures and operational adjustments on the following lines may be needed for an effective approach to the problem of growth maximisation and regional equality.

(a) At the national level, the Central Government should formulate regional policies and consciously adopt a regional approach to development problems in the various sectors of the economy.

(b) Interstate regional planning could be initiated by the Central Govt., wherever inter-state problems are crucial and call for effective interstate coordination.

(c) At state level also planning should be guided by a regional approach.

(d) At the sub-state level, regional planning should be introduced for a group of inter-related districts.

The formulation of regional policies and attention to problems on a regional scale at the national level will provide the means of counteracting centripetal forces inherent in economic and technological developments which tend to widen the existing disparities between one part of the country and another. Similarly a regional approach to planning pursued at the state level will ensure that the state level programmes are guided by the various Physio-geographical and economic conditions within its boundary. Further such an approach at both the national and state levels will provide an invaluable tool for informed decision-making. Inter-state regional planning practised wherever necessary, would make for a coordinated effort and optimum utilisation of resources and would also help in solving problems involving jurisdictional dilemmas. At the sub-state level, regional planning would ensure that plans are prepared on the basis of a meticulous appreciation and assessment of local problems, resources and production potential. The plan preparation at the various spatial levels indicated here

re not meant to be mutually exclusive operations, but effective operational procedures should be devised to ensure continuous coordination and consultation between the various levels of decision-making, thus ultimately leading to a unified effort in planning. The spatial plans thus made will provide some degree of consistency and predictability in economic affairs, thereby ensuring that the aims of development schemes are by and large realised.

The measures outlined in the paper are only ' suggestive ' and not 'conclusive'. This is because in a dynamic and changing situation in a developing country, policies evolve in response to changes in the problem areas, centre-state relationships and pressures in the light of rapid economic and technological developments as well as political pressures. There are not doubt a number of unpredictable elements in the planning process; but what emerges, from the present analysis is that we have reached a new state in our national economic planning, when a certain realignment of our policies may be necessary to provide a regional bias, followed by concrete steps towards regional planning at different levels intended to bring about better spread-effects of planning in our country.

TABLE - 1

SHOWING STATE-WISE DISTRIBUTION OF PER CAPITA INCOME, PER CAPITA OUTLAY ON CENTRAL INDUSTRIAL PROJECTS & PER CAPITA CENTRAL ASSISTANCE.

(Figures in Rs.)

States (arranged in descending order of per capita income)	Per Capita Income (1969-70)	Per Capita Plan outlay on Central Sector Industrial Projects (1951-69)	Per Capital Central Assistance I Plan	II Plan	III Plan	1966-69
1. Delhi	1239*	6.5	33	51	340	193
2. Punjab	881*	24.8	88	49	66	38
3. Haryana	788	8.5	-	-	-	53
4. Maharashtra	731	11.0	15	21	42	24
5. Tamil Nadu	616	69.6	14	29	55	33
6. Madhya Pradesh	569	121.6	23	35	68	38
7. Gujarat	567*	21.8	19	27	54	32
8. West Bengal	562	105.9	43	26	44	28
9. Assam	545	34.0	25	31	84	61
10. Mysore	515	22.3	24	31	66	40
11. Andhra Pradesh	513	24.8	19	29	61	40
12. Uttar Pradesh	506	20.3	14	18	48	30
13. Kerala	505@	43.7	18	25	72	45
14. Rajasthan	480	15.7	39	33	80	50

..2.

15. Bihar	402*	91.9	14	20	46	20
16. Orissa	325@	192.4	52	43	78	41
17. Jammu & Kashmir	216£	-	30	59	169	154

Note: (i) The per capital income is based on current prices. Source: Central Statistical Organisation (as on 1st December, 1971).

(ii) The figures under Cols. 3-7 have been obtained from Planning Commission.

* Refers to 1968-69 figures.
@ Refers to 1967-68 figures.
£ Refers to 1955-56 figures.

TABLE - II

SHOWING DEPENDENCE OF STATES UPON CENTRAL ASSISTANCE DURING THE THREE PLANS

S.No.	Percentage Dependence	First Plan	Second Plan	Third Plan
1.	30 - 50	Bombay, Tamil Nadu, Mysore.	Gujarat, Kerala, West Bengal.	Gujarat, Maharashtra.
2.	50 - 70	Andhra Pradesh, Bihar, Kerala, Uttar Pradesh, Madhya Pradesh.	Andhra Pradesh, Assam, Rajasthan, Uttar Pradesh, Tamil Nadu, Mysore, Punjab, Madhya Pradesh.	Mysore, Punjab, Andhra Pradesh, Bihar, Kerala, Madhya Pradesh, Rajasthan, Uttar Pradesh West Bengal.
3.	70 - 90	Assam, West Bengal, Jammu & Kashmir, Punjab.	Orissa, Jammu & Kashmir	Assam, Orissa Jammu & Kashmir.
4.	90 - above.	Orissa, Rajasthan.		

Source: Compiled on the basis of Programme Administration Division note "Three Five Year Plans of States - A synoptic view" Planning Commission circular No. PC(P)3/66 dated 12th August, 1966.

Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1972

"FINANCIAL AND OTHER INCENTIVES AS FACTORS ATTRACTING PRIVATE INDUSTRY TO BACKWARD REGIONS"

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FINANCIAL AND OTHER INCENTIVES AS FACTORS ATTRACTING PRIVATE INDUSTRY TO BACKWARD REGIONS

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Reduction in disparities in the levels of development among different regions has, all along, been a major objective of Indian economic planning. It would, however, seen that during the period prior to the Fourth Plan, the policy frame did not contain any sub-stantive provisions to tackle this objective. It is true that special significance was given to the State industrial plans, that some large public sector projects were established in the industrially under-developed states like Bihar, Madhya Pradesh and Orissa, that the small industry was assisted in a variety of ways including the programme of industrial estates. But it would still be true to say that industrial growth remained, by and large, concentrated in a few states, and even here in a few districts. Industrial growth seems to have skipped the industrially underdeveloped states, and the backward districts even in the industrially developed states.

In view of this disappointment as regards the objective of reduction in regional imbalances in development as also for the reason of increased concern for social justice witnessed since last five years or so, this objective has gained greater emphasis than before. In the year 1968, the Planning Commission appointed two working groups - one for recommending the criteria for identification of backward areas, and the other for suggesting fiscal and financial incentives for establishing industries in backward areas. The Planning Commission and the Government of India considered these reports, and have initiated a number of steps to help the growth of industry in backward areas. These together with the activities of the State Governments, and financial and other institutions, constitute, for the first time, a fairly

This paper attempts to appraise the role of these measures in the light of the experience of similar measures in other countries. The first part describes briefly these recent measures. The second part summarises the experience of the U.S. and Italy; the third and last part appraises the role of Indian measures in the light of the foreign experience

I. Recent Measures in India

The Planning Commission has prepared a list of 217 districts and all the Union territories (except Chandigarh and Delhi) as backward, accounting for roughly three-fifths each of the total land area and of the population. While all these districts and areas are eligible for concessional finance by the financial institutions, quite a few (one district each from developed states, two districts each from backward states, and certain other specified districts as also some specified union territories) are eligible for additional incentives under the central subsidy schemes. We shall first consider the special schemes for these selected districts and then the general scheme for all the backward districts.

(a) Special Scheme for Selected Backward Districts:

This scheme has two components: one relating to financial grant/subsidy, and the other relating to the transport subsidy.

As to the first: the Central Government gives an outright grant or subsidy to the extent of 10 per cent for new units. While the scheme is applicable to units whose fixed capital investment would be up to Rs.50 lakhs, others having more investment may also be considered on merit. The scheme is also applicable in case of substantial expansion of the existing units. In addition, the Central Government also offers transport subsidy equivalent to 50 per cent of the transport cost of both raw materials and finished

products from (or to) the nearest railhead to (or from) the site of industrial units for all new industrial units to be located in Jammu and Kashmir, Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunchal Pradesh and Mizoram. This subsidy is also payable for expansion or diversification of existing units, if this leads to an increase in production of the unit at least by 25 per cent over the average annual output during the preceeding 3 years. In such cases, the subsidy will be restricted to 50 per cent of the transport cost of additional raw materials required and the finished goods produced as a result of expansion or diversification. Subsidy is available for bringing the raw materials from outside the State and taking out finished products to other states. No subsidy is available for internal movement of raw or finished goods.

(b) Schemes for all Backward Districts:

The all-India financial institutions, the Industrial Reconstruction Corporation of India and the National Small Industries Corporation have also worked out schemes of liberal finance to attract industry in backward districts. Some of the chief features of these schemes are outlined below.

The schemes operated by IDBI, IFCI and ICICI are confined to their rupee operations and for projects with a total investment cost of up to Rs 1 crore. The rate of interest is 7 per cent per annum (as against the normal rate of 8½ per cent); the grace period is 5 years moratorium for the first repayment of the principal (against the normal 3 years). The period allowed for repayment is 15 to 20 years as against the normal 10 to 12 or to 15 years. Participation in risk capital could also be greater. The margin of security would be 30 to 35 per cent of the value of assets. Concessions are also given in respect of other charges related to underwriting commitment, etc. Besides, the measures also include a programme of study of industrial possibilities in

the backward states by means of joint-institutional teams and follow-up action in this regard.

(c) <u>State Incentives</u>:

State Governments have also adopted a number of measures to attract industry to developing or backward district in their areas. While the details of the schemes naturally vary, basically, they aim to create infra-structure facilities and offer the same at concessional rates, and provide for fiscal exemption and concessional finance. These measures relate to the development of industrial plots and construction of sheds, rebate in electricity charges, exemption in octroi, concessional finance, refund (in the nature of long-term interest free loan) of sales tax, etc.

II. Experiences of Other Countries

What is the extent to which the measures initiated in India may go to promote industry in backward states and backward districts? Admittedly, it is too early to evaluate these measures, as most of them have been adopted only recently. Thus, for example, the Central Government's transport subsidy scheme came into force in July 1971 and the capital subsidy scheme from August 1971. Secondly, we do not have detailed studies on location of Indian industry highlighting the importance of various factors in location. Thus, the task of saying anything in regard tot he value of these measures in the Indian context becomes rather difficult.

It may however be noted that the problems of locating industry in the depressed areas as also in the areas which have never experienced any industrial developed nations. These countries have been operating a variety of schemes to foster the growth of industry in these regions. There have also been a number of studies attempting to evaluate the role of various incentives as also of the factors affecting location of

industry. It is hoped that the results of these studies may not be irrelevant for drawing some lessons for the Indian measures.

Towards this end, we present, first, the opinions of the executive on the factors of location. This is followed by statistical studies highlighting the importance of various items in the total cost of production. Finally, we summarise the results of the experience of Italy which has had by far the most comprehensive scheme of measures for its industrially underdeveloped southern part.

(a) <u>Opinions of Executives</u>:

We present below the relevant findings of the two well-known studies on the Michigan and Florida industries, which attempted to assess the importance of various factors in location decisions on the basis of interviews with top executives.

The Michigan study[1] was conducted by the Survey Research Centre in 1961. The study was based on personal interviews with top executives of 239 Michigan manufacturing plants. Labour costs (wages and productivity) were mentioned by the largest number, by executives representing 65 per cent of the total employment in sample factories; and proximity to market by 62 per cent. Such factors which may be classified in the category of infrastructure facilities as community factors, marketing facilities, traffic access, zoning, local sources of financing were mentioned by executives representing 14, 11, 7,4 and 3 per cent employment only. It would thus appear that the factors related to infrastructure and financial incentives did not seem to play an important role in location decisions. The survey also tried to probe into the <u>main</u> reasons for locating plant in Michigan and at particular site (town). As

1. Vide Eva Mueller and James M. Morgan: "Location Decisions of Manufactures" in Gerald J. Karaska and David F. Bramhall(Ed.): <u>Locational Analysis for Manufacturing</u>, the MIT Press, 1969, pp.429-442.

to the first: local concessions and inducements and better tax situation were mentioned as main reasons by executives representing only 2 and 1 per cent of the total employment. As to the second: these two factors were mentioned by executives representing 4 and 3 per cent of total employment. On the other hand, personal reasons, labour costs and proximity to customers, etc., appeared more frequently.

In the Florida study[2] (which covered 245 firms), community facilities (education, police, medical, fire) were mentioned as the <u>most</u> influential factor by only 2.9 per cent of the total firms. Among factors secondarily important, it figured in the replies of only 2.9 per cent of the total firms and state and municipal tax structure in the replies of 2.8 per cent. When the data regarding factors as either primarily or secondarily as most influential are considered, these two factors were mentioned by 1.9 per cent each. Thus, here again, factors associated with taxation and community facilities are not rated importantly in location decisions.

(b) <u>Statistical Cost Studies</u>:

A second way of attempting to measure the effects of inducements upon business investment is to estimate the impact of financial inducements upon costs. We may present here the main findings of the Wisconsin study[3] which attempted to examine the impact of property tax exemptions and also of various low interest loan programmes on business costs.

In Wisconsin, property taxes amounted to 0.68 per cent of the total cost of all manufacturing industries combined, and ranged from 0.37

2. Melvin L. Greenhut and Marshall R. Colberg: "Factors in the Location of Florida Survey" in Karaska and Bramhall, <u>op. cit</u>., pp. 443-64.

3. Benjamin Bridges, Jr: "State and Local Inducements for Industry" in Karaska and Bramhall, <u>op.cit</u>., pp. 178-209.

per cent for the food products industry to 1.40 per cent of the primary metal industry. In other words, exemptions may reduce costs in these proportions. But, as the study rightly points out, this reduction in state-local tax liability would be partly offset by accompanying increase in federal income tax liability, weakening thereby the effect of incentive that may be offered by tax reduction.

Similarly, an attempt was made to calculate the effect of low interest loans on costs. It was found, for example, that loans at 1 per cent below normal rates would reduce costs by 0.30(at 2 per cent below, by .60; at 3 per cent below, by .90; and at 4 per cent below, by 1.20 per cent) of the value of shipments for all manufacturing industries. Here again, since interest payments are deducted in calculating federal income, this reduction in interest costs would be partly offset by the accompanying increase in federal income tax liability.

After reviewing this and the other evidence, the study concludes that industrial development inducements are a more important factor in the choice of location within the region rather than in the choice of location of the region, but even there inducements of the commonly used types are probably a secondary factor.

(c) <u>Italian Experience</u>:[4]

Italy is one of a few countries which have attempted a comprehensive programme of initiating growth in backward areas. Also, the experience of Italy is more relevant for a country like India as the Italian experience relates to the process of initiating development in an area which was basically underdeveloped, whereas in other advanced countries it was a problem of initiating development in depressed areas which had already experienced industrial development.

The Southern part of Italy, or Mezzogiorno as it is called is not an underdeveloped region in the ordinary sense of the term

4. Vide F. Vitl: "Problems of the Underdeveloped Regions of Italy" and P. Sarcenco: "Development Policy in an Overpopulated Area" both in E.A.G. Robinson(Ed.): Backward Areas in Advanced Countries, ... 226-239.

It extends to seven administrative regions comprising an area and a population which form 41 and 38 per cent of the respective rational totals.

The policy and programmes initiated for development of Southern Italy included (a) a vast programme of investment in infra-structure -- material infrastructure such as roads, bridges, electricity, means of transport and communications; social and human infra-structures such as schools for primary education, hospital, social assistance centres, etc. (b) favourable fiscal and credit conditions (c) greater investment by public sector enterprises in the South. Thus, for example, public enterprises in 1958 invested in South 24 per cent of the total investment made in Italy in 1958; the proportion rose to 47 per cent in 1963 (and to 43 per cent in 1965). Considering the comprehensiveness of the programmes, the results achieved seem to be meagre. To illustrate: the per capita income at current prices of Southern Italy which, in 1951, was 59.5 per cent of that of the rest of the country increased to 61.2 per cent in 1965.

Many explanations have been offered for this poor performance the most telling of which is given by Pasquale Saraceno. He writes:

> "Perhaps the most important comment suggested by Italy's experience is that not sufficient attention has been paid to the fact that industry growing up in an underdeveloped area must operate under the shadow of industry already established in other areas of the same country, while benefiting from a degree of protection -- provided by so-called incentives -- which is inevitably far less than that which infant industries have always enjoyed in all countries in all times".

He estimated that industries in the North and Central Italy, ~~had~~ benefited for more than half a century from a degree of protection varying between 20 to 40 per cent, whereas the newly developing industry of the south enjoys a series of incentives equivalent to custom protection varying from 5 to 10 per cent.[5]

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5. Vide P. Saraceno: <u>op.cit.</u>, pp.238-39.

III. Lessons for India

What lessons do the experiences of other countries offer for the policy and measures in regard to the growth of industry in back-ward regions in India? Before answering this question, we may not that such measures have been in vogue in many countries for a number of years, whereas in India they have been adopted very recently. Secondly, even here it would seem that the measures there are more comprehensive and substantive than the same here. Yet, their experience may have some value.

(a) Firstly, the empirical evidence on the subjective factors in location and on the relative importance of the various items of cost indicates that the incentives of various types even when taken together, are only of marginal significance; and their effect does not counteract the overwhelming advantages which industry in developed areas enjoys from such favourable factors as access to markets, labour costs, etc.

(b) It would seem that the advantages offered by these incentives to industry in backward areas are far less than those that were offered to industry in developed areas against industry from other nations.

(c) To the marginal extent that they have succeeded, incentives have succeeded in attracting industry to backward areas from developed areas of the same regions, rather than from developed areas of the other regions. In other words, to the extent the incentives work, they work for producing a better intra-regional, rather than inter-regional, distribution of industry.

(d) They may be expected to produce even such marginal results only in the long run.

Thus, if any sizeable dent has to be made towards achieving a better distribution of industry in favour of backwar areas, especially backward states, in not too distant run, the policy and measures have to be more substantive than they have been hitherto. Some of the suggestions that may considered

in this connection are listed below:

(i) In the first place, the value of concessions to be offered must be high enough to pursuade industry to to to backward areas, more so for the backward districts of backward states.

(ii) If the value of such concessions could not be sufficiently raised for one or the other reason, outright restrictions on new industry or on the substantial expansions of existing industries in some other areas, especially the congested ones, may be necessary.

(iii) The experience of other countries such as Italy, Belgium, Sweden and Russia teaches that the cause of backward area's is not served much by a large number of small projects. In fact, the Indian experience in regard to rural industrial estates also teaches the same leasson. One may therefore have to think in terms of a push, on a scale large enough to promote growth through strong multiplier effects. The questions as to how large this push should be and what it should contain are difficult to answer. Broadly speaking, the push should be large enough to provide efficiently the main services in material (gas, water, electricity, transport and communication) and human (education, medical facilities) infrastructure, and provide a market for small industries. It may be that populations of between 100,000-300,000 inhabitants in a close-enough area may satisfy these criteria. What industry or industries are to be selected may be determined on the basis of resource surveys. In this connection, the surveys of underdeveloped states initiated by teams of specialist financial institutions may be of value.

(iv) It is clear that action on these lines involves far more work and incentives than have been applied hitherto in this area. The risks, especially in starting an industry on a large enough scale, in backward districts, are many, and few entrepreneurs may come forward for this task. To put it in other words, promoting a propulsive industry in a backward area may be as risky as promoting a "core" industry. It may as well be that, in the short run the risks involved in starting big industry in backward districts may inherently be so high that only either a big firm or a big business house which can spread these risks over their large business operations, or the State which is motivated by large, social considerations could be depended upon to play this risky and pioneering role.

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Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1972.

"BALANCED REGIONAL DEVELOPMENT IN INDIA - SOME ISSUES"

by

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Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
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NEW DELHI.

BALANCED REGIONAL DEVELOPMENT IN INDIA - SOME ISSUES *

The existence of regional inequalities is almost universal in developed countries as in the U.S.A., Japan and Italy, in Centrally Planned economies like Yugoslavia, U.S.S.R. and Poland and even in transitional and developing countries like Pakistan, Thailand, Indonesia and India, the problem does exist though admittedly in varying severity. And therefore it has become increasingly necessary for all these countries to tackle this problem of regional inequalities. The major tasks involved in tackling this problem are to assess the extent of regional differences to decide whether intervention is necessary or not, if intervention is considered necessary to identify the measures for the purpose. In any assessment of regional differences, the concept of a "Region" assumes great importance. A region could be either a homogenous one with common economic characteristics or a polarised one with interdependencies or a policy one dependent on policy considerations. A policy region with operational significance would have as its base the characteristic of a homogenous region and a polarised region. The concept of a region would however depend more on the purpose in view based on social balance and political significance rather than on scientific accuracy. Whatever be the concept, implicit in it is the technique and process of regionalisation.

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In delineating a region, it is possible to visualise a number of criteria but these depend upon the concept of a region which inturn is dependent on the accepted policy.

The Indian Problem

While in the economically advanced countries the problem is comparatively simple and is one of economical use of land especially internal to metropolitan areas or to some extent a treatment to depressed arras in transitional societies, however, it is more complicated; apart from the politico administrative considerations, it is a study of welfare of the present versus the future. Its general strategies involve balances among sectors and economic regions. The stress is on fundamental, technical and economic co-efficients, in the overall politico-administrative framework. In India, which is aiming at rapid technoligical and economic change the spatial dimension gets irrevocably interlinked with technical and economic coefficients. Further in the context of 'imperialist past' the spatial order available is "unsuited" to the dynamic impulses of growth, and any effort to take congnisance of existing "homogenous economic regions" or make use of the apparent comparative advantage situation as it obtains would be fruitless. In other words, the Regional problem should not be viewed as a "corrective" to the general economic and technical balances, or a tackling of "special problem areas" as such in the given context.

A second feature of Regional problem in India is the existence of a federal political structure. This involves certain areas of decision making being left to subnational units; and also cognizable pressures on the national government for making decisions in a particular direction to suit particular subnational areas. In these circumstances, the object of rational planning machinery is not only a technique of translating over geographical space the ov all national development objective but also integrating and harmonising the development objectives of the various subnational units.

Regional Development Policy in India - A Review

The principal regional objective, may be described as the 'balanced regional development'. The Second Five Year Plan admitted that " In any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be so devised as to lead to balanced regional development". The Third Five Year Plan too set out in some detail the general approach to balanced regional development. It pointed out that "in drawing up and implementing the Second Plan, the regional aspects of development were dealt with in three different ways. Firstly, through the plans of States emphasis was given to programmes which had a direct bearing on the welfare of the peopl in different parts of the country. Secondly, special programmes

were undertaken in particular areas where development had either received a temporary set-back, or was being held-back by certain basic deficiencies. In the third place, steps were taken to secure more dispersed development of industry which, in turn, creates conditions for development in several related fields". And in the Third Plan itself emphasis was laid on the fact that since some of the most important Plan schemes fell within the State Plan, the size and pattern of outlays for the States under the Third Plan had been so calculated as to "reduce disparities of development between different States, although in the nature of thingsthis is a process which must take time". Besides this, several features in the Third Plan were indicated as being intended to "enlarge the possibilities of development in areas which have in the past been relatively backward". Among these were the intensive development of agriculture, expansion of irrigation, village and small industries, expansion of power, development of roads and road transport, educational facilities, provision of water supply and programmes for the welfare of Scheduled Tribes and Scheduled Castes. The location of basic industries as means for achieving regional development was mentioned both in the Second and the Third Plans. Technical and economic limitations were emphasized, but it was stated that subject to these considerations the claims of under developed regions should be kept in view. In contrast to the fairly elaborate treatment of this aspect in the Third Plan, the Fourth Five Year Plan, while it dealt in detail with

regional development in the sense of physical planning, particularly of urban and metr politan areas, made only a brief mention of the correction of regional imbalances. While describing it as a problem that is "highly complex" the Plan document states that "differences in development between State and State arise out of variations in activity in the three sectors- Co-operative, private and public". With regard to the first, it is stated that "no specific new programmes or policies of the Central Government could help materially in this regard". With regard to the second it is stated that this would depend "on the extent of entrepreneurship with in the State and the resources commanded by it". With regard to the third, it is stated that "availability of resources with Governments of States for planned development is the heart of the matter". This is in contrast to the approach in the Third Plan where the State Plan outlays were taken as important instruments for the reduction of regional disparities. While the Third Plan emphasized the crucial role of the State Plan outlay in reducing regional disparities, the Fourth Plan document mentions only the allocation of Central assistance and that too with the corollary that in the existing arrangement such help will not be substantial. The whole question of adopting a positive policy in regard to planned development for achieving reduction of regional disparities, therefore, remains unresolved.

The effort towards balanced regional development in India, so far, could be summarised as follows:

a) Weightage was given for backward states in the allocation of Central assistance.

b) Backwardness of a State or an area was taken into consideration as one of the factors in the location of central sector project though on an adhoc basis.

c) Special assistance was made available to backward areas like Nagaland, and Eastern U.P. though specific demarcation of all problem areas is yet to be scientifically made..

d) Preference was shown in licencing private industrial establishments in the backward areas, though backward areas have not been clearly defined till recently.

e) Industrial estates in urban or semi-urban areas were established.

f) Measures were taken for relieving the burden on the metropolitan areas as in the case of Bombay, Calcutta etc.

g) More recently, in the course of Fourth Plan, some measures of relevance to Regional problem have been taken up. Central assistance to states takes into account, backwardness of the state and special problems of the State. Special schemes such as Rural Works Programme for drought areas, Pilot Project for Tribal Development, Dry farming projects are taken up to cover "problem areas". Backward districts have been

identified for purposes of concessions for Industrialisation. Further efforts are being made to identify backward districts and prepare comprehensive plans of development on a priority basis.

A critical review of the approach towards balanced regional development in India reveals the following features. Firstly, it is not very clear whether the National Government views inter-State imbalances alone or inter state imbalances too as its responsibility. Though occasional identification of problem areas gives an impression that back-ward pockets in all States are proposed to be tackled by the National Government, on a closer scrutiny it does not appear to be so for even the total amount of allocation for such backward tracts as between different States are decided on State-wise basis.

Secondly, assuming that the National Government tackles the problem of regional imbalances taking the State as a unit, the effort so far does not seem to have borne sufficient fruit. There is no evidence of cognisible reduction in the equalities. Even if important indicators of intra-structural development such as roads, power and water facilities are taken into account there are wide variations between different states. Even considering that bringing about regional imbalance is a long term proposition, it should at least be possible to find expression of regional balanced approach in crucial investment policies.

If we study the per capita plan outlay in the State Plan Sector, it looks as though there is no policy of ensuring that the State Plan outlay per capita has a relationship to the level of per capita income. No correlation is found between these two. In fact, the average of all states per capita plan outlay in the Fourth Plan is exceeded by Assam, Gujarat, Haryana, Maharashtra, Punjab and Tamilnadu (Jammu & Kashmir and Nagaland exceeded the per capita outlay enormously but are treated as special areas). Thus except Assam, all the other 6 states in India which have been specifically considered as backward by the Planning Commission have a per capita outlay in the State sector in the Fourth Plan which is less than the average of all States.

Thirdly, the total investment by Central Government, State Government, institutional finance & private parties which in the aggregate analysis is the major instrument for balanced regional development, has not tended to correct to any significant extent the existing regional imbalance.

In respect of location of a few central sector projects, an attempt was made to decide on the location on the basis of certain areas treated as backward purely on an ad-hoc basis. But there has been no attempt at appropriate policy recongilliation on an aggregative scale between the technolggical factors, the regional demands and the growth, as far as central investments are concerned. In fact in the matter of provision of certain

services flowing out of the location of central sector projects such as the Neiveli Lingnite Corporation, Bhakranangal Project etc. the services such as power were made available to the States which are already advantageously placed and no attempt to make these services available to comparatively backward States was made. Thus, in spite of professions to the contrary due to considerations of static approach and comparative advantage and partly due to socio-political considerations states favourably placed have tended to derive the advantage of not only the physical location of the central investments but also the services emanating from them even where it was possible (though in a few cases) to disperse the availability of these services. In any case, it is a mootpoint whether the total central investments have tended to give weightage in favour of backward states.

In regard to the state plan outlay, studies have indicated that the per capita plan outlay in backward states does not show any appreciable increasing trend in the past. Even in IV Plan it is found that there is no correlation at all between per capita State Plan outlays and percapita incomes in the State. Thus, in reality no weightage is built in as far as State plan outlays are concerned in favour of backward areas. As far as the State resources position is concerned, this is understandable but it is to be expected that at least the central assistance should be able to make good the situation. This has obviously not happened

due to a number of factors. The most important of them are first the accumulated loan-liabilities to some backward states due to the mode of central assistance in the past upto the Fourth Plan and the par weightage given to the backward areas in the Central asis stance which is as low as only 10 per cent of the total central assistance which have to be distributed among various backward states.

In regard to institutional finances, it is relevant to note that the total amount of institutional finances has been rapidly increasing. It is with the realisation of this that institutions have been nationalised in the recent past. However, the distribution of the advances as between different states does not in any way reflect the necessary policy orientation. In fact the figures of bank credit during the years 1968 and 1969 compared to the deposits show that the three fairly advanced States Viz., Tamilnadu, West Bengal and Maharashtra had substantially greater share of credit compared to their deposits. The bank deposits in these three states represent about 40 to 45% of the total deposits in the country while the credit in these three States amounts to 60 to 65% of the total credit in the country. This has to be viewed against the background that the highlevel of deposits in these states by themselves represent a high level of economic activity and by maintaining the national deposit-credit ratio, these states are not deprived of their legitimate share

of saving. The important point is that the weightage that is sought to be given in terms of central assistance to the States is more than off set by the Savings that are being sucked in by the advanced states through the institutional finance mechanism.

In regard to private investments it is necessarily a function of the investible capacity which is reflected by the levels of income and also the opportunities for investment. Naturally both these factors operate to the advantage of already advanced States.

INSTRUMENTS OF REGIONAL DEVELOPMENT POLICY

The aggregate analysis in terms of total investment is only one part of the story. From an operational angle it would be useful to identify the specific instruments of regional development. For the sake of convenience it is proposed to present the instruments which have particular relevance to the industrial development. In the regional context it should however be conceded that the instruments of public policy towards the regional balance are broadly the same for every type of economic activity including industries. Secondly, no policy of attempting to bring about regional balance in terms of industries would succeed unless the other complimentarities are also taken into account.

One of the crucial fields of intervention would be the public investments in infrastructural development and creation of overheads which would bring about basic changes in comparative-cost-advantages. This form of intervention is specially important in developing economies with a Colonial past and consequent economic dualism. Unfortunately, no quantitative techniques to guide investments in this regard are readily available and the popular benefit-cost criterion is subject to serious limitations. The second field could be a set of fiscal and institutional measures providing differential advantages; these measures may include discriminatory measures by public enterprises in important fields and direct intervention. This set of measures may either be the "pull type" or the "push type" or combination of the two. In other words, they may be measures either to attract activities by incentives or discourage or stop expansion of activities in certain areas. The effectiveness and the economic implications of these measures have to be analysed only in the given context, ensuring cognizance of dynamic element. It may, however, be emphasised that with rapid advances in technology, the fixity of activities to natural resources is decreasing in importance as location of activities irrespective of resource endowment is increasing. This economic reality provides a greater latitude to the Government to bring about regional balance in consonance with the national productivity criterion. Lastly, the possibility of

encouraging migration, is yet another field though the success of this policy would depend on the level of social organisati n and prevailing tradition of labour mobility.

More specifically in the c ntext of Regional Industrial Balance the following instruments could be readily identified:

a) direct investments by the Government in terms of infrastructure especially Transport, Communications, Power and Water.

b) actual location of the industrial activity itself by the Government in terms of Central sector or State Projects;

c) location of the joint ventures;

d) the policies of romotional undertakings such as Industrial Development Corporation etc.,

e) locational policy of industrial estates;

f) Policies of financial institutions-financial incentives in terms of lower rate of interest, longer period of ammortisation, longer period of repayment, insistence of lesser margin etc.,

g) fiscal incentives in terms of exemptions from Income tax, Excise duty, Sales tax etc.

h) discriminatory policy by basic service enterprises such as discriminatory tariff for Power, discriminatory tarrif for movement over Railways, discriminatory pricing for basic commodities in the Public Sector such as Steel etc.,

i) discriminatory exercise of powers of allowing quotas of controlled commodities, foreign exchange, acceptance of collaboration etc.,

j) utilisation of Industries Development and Regulation Act in terms of licensing with regard to the licensing of activities;

k) facilities in terms of technological research, feasibility reports etc. technical know-how.,

l) facilities for Marketing - ny giving priorities.

Without going into the details, it might be mentioned that a review is necessary of the extent to which each of the instruments affects the regional balance and to what extent adequate coordination has been ensured as between different instruments.

The very fact that till recently backward areas were not demarcated at all shows that there has been no effort at coordinated approach towards a policy of regional balance. Further, unless appropriate linkages as between different activities are laid out in fairly great detail it is quite possible that this objective of regional balance could not be achieved. Hence, at the time of plan formulation it seems it would be necessary to detail the regional policy and stragetties indicating the locational aspects of various activities, making use of all the instruments, Lastly, where private enterprises

does not come forward to satisfy the requirements of total production the public enterprises should automatically go into the concerned activity.

Logically it follows that the locational policy of the activities and use of all these instruments must be decided as a matter of national policy and any effort at the use of instruments by different sub-national agencies such as State Government on their own would possibly distort the execution of the policy. It is, in this context, that competitive concession given by the various States becomes either unnecessarily profitable to the particular industrialists or distorts the locational implications compared to what is contemplated in the context of national policy.

Therefore, the provision of facilities and incentives by different States on a different criteria should be dispensed with. A more regretable feature is that the Government of India itself insists on provision of certain facilities such as provision of land etc. by the State Government as a pre-condition to the location of activities. If the location is based on considerations of productivity and the policy of regional balance, there is no reason why a third constraint which is entirely unrelated to the basic policy issues viz. provision of free land should influence the location. This is particularly irrelevant when we

(Continued on page ... 17...

consider that the so-called 'facilities' in terms of land and water usually constitute a fraction of a total cost of the project in most of the Central sector projects.

Industries and Regional Development:

A better regional balance in terms of industrialization can occur primarily through the appropriate spread of investments in the field of industries. In other words, a limit to the capacity of spatial dispersion of industries is set by the total quantum of investments in the field of industry and the general level of industrialisation that is occuring. There may be a few exceptions as in the case of Bombay city where there may be a shift of the existing units also to new places of location. By and large, it is to be conceded that the capacity for spread of industrialisation is limited by the total quantum of investments that take place in industry. Out of a total investment of Rs. 22,635 crores during the Fourth Five Year Plan investment in the field of industry (including village industry and Minerals) is estimated to be only Rs. 6,044 crores (26.7%).

Further, it is to be conceded that balanced industrial development is not an end in itself. The end product certainly is either per-capita income or more relevant consumption levels. If this is the objective this could be brought about by the development of non-industrial sector as well. At least at the

present stage of development, it may not be appropriate to think that in all cases the general rate of growth of a region is interlinked with the rate of industrialization within the region. So, a distinction has to be made between those industries which necessarily aid other activities contemplated within the area, such as agro based input or processing units etc. and those that are unrelated such as electronics. The Regional industrial policy should necessarily be dovetailed into the general strategies contemplated for different regions.

In respect of certain areas hich have no congnizable strong economic base in terms of non-industrial activity, such as Rayalaseema, the role of industries in connection of regional imbalances becomes crucial. Even here, the possible multiplier and employment generation implications of the industrial activity need to be studied. Further, there has been an excessive emphasis on the role of central sector industrial projects in bringing about regional balance. In terms of their employment effect, for instance, a rough indication is that the investment - employment (direct) ratio is 5 lakhs to one. The indirect effects are difficult to quantify. It seems that the role of central sector industrial projects would need to be studied in a more objective manner devoid of emotion and for prestigious reasons.

Issues:-

It is clear that there are a number of issues which have to be sorted out, if meaningful regional balances have to be attempted. This review has tried to point out that there has been certain amount of adhocism in this regard. Certain of the near relevant issues relating to the problem are summarised below.

a) There is need for a greater clarity in the expression of the regional development policy. Does the regional balance as a goal mean that the purchasing power of the people is increased uniformly as far as possible? Does it mean that productive avocations should be made available to all? Is it that the development resources should be distributed inversely in various proportions to the existing level of economic welfare? Is it equalising social services? Is it that the different regions would be allowed to progress in some measures according to their own potentialities in the light of physical, human and institutional resources? Is it that regional balance is visualised over a time span and in the short rurn, imbalances are allowed? If so, what is the degree of imbalance allowed?

With regard to the spatial order, is it the policy to allow substantial dispersal of activities as implied in Community Development Programmes? Is it concentration of activities in a

few metropolitan centres or is it what could be termed" concentrated decentralisation in terms of appropriate functional linkages?

b) What exactly is the concept of a Region? From an operational angle would it be the State or the districts? Or would it be realistic that the country is divided into various economic regions and the plans, policies and strategies are worked out on this basis, and then disaggregated into various administrative units with appropriate local fields left to these agencies? What would be the relative role of the national and State Government's in this regard? What are the regional strategies for the various parts of the country?

c) In the context of perspective plans what should be expressed is not only the material balances as between different sectors but also the spatial organisation that is envisaged. This necessarily involves regionalisation of the national perspective. Very clearly such regionalisation helps on the one hand the sub-national agencies to plan with greater knowledge, enables re-conciliation between the national optimum and sub-national optimum and lastly it enables the dynamics of spatial order, technical factors and economic efficiency to be appropriately re-conciled.

d) Implicitly, the problem is to be approached in terms of totality; that is aggregate decisions in terms of investment should encompass not merely plan investments but the investment policies of all the agencies, especially the financial institutions, in view of their expanding role. How is this brought about?

Is not delineation of backward areas for a general purpose a meaning less exercise? What is essential is delieneation of physical resource potential over the territory of the country, identification of locational possibilities, working out the functional linkages and the decisions relating to the actual location ensuring distribution of activities over the space as far as possible. In the process, it should be possible to assign productive roles to all the areas in the country.

e) In adopting such approach, the role of industrialisation is to be appreciated as being one of the means and not as an independent objective in itself. It is undeniable that progressively industrialisation as an instrument of regional balance would become more and more important.

f) In operational terms there is need to make effective use of all the instruments in a coordinated way and care should be taken to ensure that the instruments do not work at cross purposes. With a number of autonomous bodies in the field,

and in the context of federal structure, how could this be done?

g) lastly, it should be realised that a perfect balance in terms of any index is a goal that can never be realised and that the whole regional development policy is to be construed as a process.

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SEMINAR ON
"REGIONAL IMBALANCES- THE PROBLEMS AND POLICIES"
(with special reference to Industry)
March 3&4, 1972.

"THE FOURTH PLAN MID-TERM APPRAISAL"

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI.

REGIONAL IMBALANCES

Greater inter-regional and regional balance has been one of the long-term objectives of planning. The Fourth Plan recognises the problem of inter-regional or inter-State imbalances as highly complex and as one that requires, in addition to specific measures, multi-level coordinated efforts at Central, State and district levels.

Inter-State Imbalances

2. Keeping in view the sources and sectors from where differences in development arise, the Fourth Plan identified three directional measures to be initiated by the Centre for redressing inter-State differences:

1. Allocation of Central assistance;
2. Location of Central projects; and
3. Adjustments in procedures and policies of financial and other institutions with a view to encouraging private investment.

In order to give effect to the policy of correcting inter-regional imbalance the criterion for allocation of Central assistance to States was modified by the National Development Council so as to favour the relatively backward States which were identified on the basis of average per capita incomes for 1962-65. According to the new formula, ten per cent of Central assistance was set apart for States whose per capita income was lower than the national average. This has benefited Bihar, Kerala, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. Also, the special problems of the border States, in addition to their backwardness measured in terms of per capita incomes, were separately reckoned in the allocation formula under

which Assam, Jammu and Kashmir and Nagaland became entitled to a much larger share of Central assistance. Under the special pattern for Hill Areas, 90 per cent of Plan outlay on hill areas in three States was agreed to be given as grant and 10 per cent by way of loan. Similarly, a special pattern of assistance 50 per cent grant and 50 per cent loan in the proportional assistance for the hill areas of U.P., West Bengal and Tamil Nadu, was simultaneously introduced to deal with the Problems of hill areas. Under the revised formula, assistance is no longer tied to projects: the States have flexibility in using the assistance for programmes that would benefit the backward areas.

3. Location of Central projects in the backward areas, subject to their techno-economic feasibility and viability, was accepted even before the commencement of the Fourth Plan. There is no change in this policy. In the Fourth Plan, 77 per cent of the total outlays has been provided for the backward States on investment in Central industrial projects. Following the recommendations in the reports of the working groups on Identification of Backward Areas and on Fiscal and Financial Incentives for starting Industries in Backward Areas, other financial measures have been taken towards attracting private capital to the backward areas and for off-setting the locational disadvantages suffered by the backward areas. One such measures is a 10 per cent subsidy for the location of private projects in backward areas whose capital investment does not exceed Rs. 50 lakhs. Capital subsidy under this scheme is available for two districts each in backward States and one district in others. Districts eligible for subsidy have been identified and given in Annexure 1.

4. A scheme of transport subsidy to attract industrial enterprises into the backward and border States of Jammu and Kashmir and north-eastern States has recently been introduced. Government now meets 50 per cent of the transport cost from (or to) the nearest rail-head to (or from) the site of industrial units. Subsidy is available for bringing in raw materials from outside the State and taking out finished products to other States: no subsidy is available for internal movement of raw or finished goods.

Intra-State Imabalances

5. The removal of intra-State disparities is the responsibility of State Governments. States have been urged to formulate integrated programmes for accelerating the development of these backward areas so that the gap that exists between various areas in the States can be narrowed down. The Planning Commission asked the States to identify their backward areas on a rational basis and prepare integrated development plans for such areas. To assist the States in these tasks, the Commission prepared a set of indicators for identifying the backward areas and guidelines for the formulation of district plans which could be used, with necessary modifications, by States in the formulation of plans for backward areas or districts.

6. The Commission has stressed the significant role of local plannin and urged State Governments to take up the formulation of district plans, particularly for backward areas, on scientific lines. The district plans are expected to take into account the existing levels of development in various sectors and in different parts of the district, the local

problems and needs, and potentialities of the districts arrived at from a study of the available resources. The plans would bring out overall sectoral and spatial requirements of the backward districts which would help in removing the inter-district disparities within a State.

7. A list of backward areas identified by States is given in Annexure 2. Some States have also initiated action on the formulation of district plans. Work in three districts of Punjab, two in Haryana, four in Uttar Pradesh and one each in Gujarat, Bihar, Orissa, Jammu and Kashmir, Himachal Pradesh and Mysore is in progress. A regional plan for Rayalaseema, consisting of four Districts in Andhra Pradesh, has been prepared and submitted to the Rayalaseema Development Board. The preparation of an integrated Plan for Telengana is in progress. In Maharashtra, Government has decided to prepare plans for all districts, and work on the collection and analysis of data has been taken up. The Government of Tamil Nadu have issued guidelines for collection of basic information for the preparation of district plans. Seven districts have been selected in Madhya Pradesh for the formulation of district plans.

8. In pursuance of a decision of the National Development Council, 209 industrially backward areas or districts have been select by the States in consultation with the Commission for concessional finance. Concessional finance in the form of lower rates of interest and a longer amortisation period for the repayment of loans is available for starting small and medium industrial enterprises in

these industrially backward areas. At present, these concessions are offered by the public sector financial institutions. Industrially backward districts selected for concessional finance have been named in Annexure 3.

9. Government set up a Rural Electrification Corporation for advancing loans for financing electrification projects on favourable terms. These include lower scales of minimum returns and rates of interest, and easier terms of repayment. The Corporation has approved to 132 schemes, 52 in the backward areas.

10. The proposed Fourth Plan outlays and expenditure in the first two years of the Plan for States which have specifically allocated funds for the development of backward and special areas are shown below:

(Rs. lakhs)

State	Fourth Plan outlay	1969-70 Expenditure	1970-71 anticipated expenditure	1971-72 approved outlay
Assam (Hill Areas)	3,200.00	447.00	630.00	690.00
Gujarat	1,255.00	322.00	269.00	251.00
Jammu and Kashmir				
(a) Ladakh	600.40	55.10	91.10	115.80
(b) Border Blocks and Backward Areas	200.00	23.52	30.00	45.00
Meghalaya	50.00	-	8.00	5.00
Tamil Nadu	300.00	35.00	41.00	40.00
Uttar Pradesh				
(a) Eastern Districts	21,955.00	3,900.00	6,220.00	6,890.00
(b) Bundelkhand	5,402.00	710.00	840.00	104.00
(c) Uttarakhand	200.00	340.00	470.00	400.00
(d) Other hill districts	4,500.00	880.00	1,030.00	770.00

The emphasis as on programmes of communications, horticulture, electrification, water supply, health and education. To enable speedier and integrated development of backward areas, special bodies have been set up in some States with varying responsibilities and functions. They are:

Andhra Pradesh	1. Rayalaseema Development Board
	2. Telegana Development Committee.
Bihar	1. Development Authority for Chhota Nagpur and Santhal Parganas.
Maharashtra	1. Marathawada Development Corporatio
	2. Development Corporation of Vidarbh
	3. Development Corporation of Konkan.
	4. Western Maharashtra Development Corporation.
Punjab	Rural Development Board and Special Advisory Committee.
Uttar Pradesh	U.P. Hill Development Board.

11. An analysis of the allocation of Central assistance during the Fourth Plan shows that even under the revised formula, per capita Central assistance to Bihar and Uttar Pradesh, which are the two most backward States, remains below the average Central assistance to all States. The absence of a method by which Central assistance can be linked with the levels of development and sectoral requirements is a problem that needs fuller examination. Two steps that have been initiated in the Commission are (i) analysis of the spatial

distribution of economic activities and infrastructural services as a prelude to formulating spatial strategies at different levels of responsibilities and decision making; and (ii) re-appraisal of the Central assistance in the overall perspective of development. In addition, the whole question of Centre-State financial relationships is under review in the Planning Commission.

12. There are indications that only a few entrepreneurs have approached the financial institutions for concessional finance, notwithstanding wide publicity given to the scheme. However, it is too early to judge the effectiveness of these two schemes in attracting industry into backward areas. Only six States have earmarked separate outlays for the development of backward and special problem areas. It is important for the States to recognise that without special efforts, including allocation of separate funds, disparities between different areas will not be eliminated.

13. From the experience of the first two years of the Fourth Plan and the indications for 1971-72, it can be stated that a systematic beginning in dealing with regional imbalances have been made. As for the intra-State disparities, the problem is not only of Plan finances but also of speedier flow of resources from the financing institutions to entrepreneurs and cultivators. The solution to this problem lies to a great extent within the power of State Governments which must pay greater attention to mobilisation of additonal resources, the financial viability of their public sector

undertakings and strengthening of cooperative and other institutions. Appropriate decisions will have to be taken with the concurrence of the National Development Council for the allocation of proportionately greater resources to the weaker States and for more direct participation by the Central Government in the exploitation of local resources and development of infrastructural facilities.

14. In the matter of removal of intra-State imbalances, only the State Government are in a position to tackle the problem since local planning has to be the main plank of any strategy for balanced spatial development within a State. The process of planning should be decentralised and priorities as well as sectoral proposals should be put forward at the district and regional levels to be later integrated into State Plans. If this is to be done, there will have to be a basic reorientation of the planning process and considerable strengthening of the planning machinery at the State, regional and district levels. Even at the level of the Central Government, the planning process will have to be reoriented by providing a spatial dimension to the temporal and sectoral perspective and the operational plans. As a corollary to the spatial approach to planning at the national and State levels, the policies with regard to the licensing of industrial activities, metropolitan development, allocation of development resources, functioning of promotional and financing institutions, provision of incentives and even the pricing of essential raw materials, inputs and products will have to be carefully examined.

15. The Commission has initiated some action for the collection and analysis of information regarding the level, trends and potentials of development of various districts with the objective of evolving a spatial strategy for the country as a whole. An Area Planning Unit has been set up to collect relevant information for formulating strategies of development as well as to assist States in the preparation of district plans, especially for backward areas. Steps are proposed to be taken to encourage States to initiate similar exercises at their own level and also to build up the machinery for multi-level planning. It is hoped that by the end of the Fourth Plan these steps will provide a basis for introducing appropriate measures into the Fifth Plan for accelerated development of backward areas and correction of regional imbalances.

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List of Industrially Backward District/Areas selected to qualify for the Central Subsidy of 10 per cent on fixed capital investment by industries. (As on October 5, 1971)

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State	District/Areas
1. Andhra Pradesh	2. Areas (One from Rayalaseema region (comprising 13 Blocks from the (districts of Chittor (1 Block), (Cuddapah (7), Anantapur (3) and (Kurnool (2); the other from (Telegana region comprising (16 Blocks from the districts of (Medak (1), Karimnagar (4), Warangle ((3), Khammam (2), Nalgonda (4) and (Mahbubnagar (2)
2. Assam	Goalpara and Mikir Hills
3. Gujarat	Panchmahals
4. Bihar	Darbhanga and Bhagalpur
5. Haryana	Mohindergarh
6. Himachal Pradesh	Kangra
7. Jammu & Kashmir	Srinagar & Jammu
8. Kerala	Alleppoy
9. Madhya Pradesh	2 Areas (One comprising 12 Blocks from (the districts of Bilaspur and (Raipur (6 Blocks each) and the (other of 10 Blocks from the (districts of Dewas (2 Blocks), (Shajapur (3 Blocks), Raigarh (2 Blocks) (and Guna (3 Blocks)
10. Maharashtra	Ratnagiri
11. Mysore	Raichur
12. Meghalaya	United Khasi & Jaintia Hills & Garo Hills
13. Nagaland	Kohima and Mokokchung
14. Orissa	Kalahandi and Mayurbhanj
15. Punjab	Hoshiarpur
16. Rajasthan	Alwar*
17. Tamil Nadu	A unit area of 10 Talukas from the districts of Ramanathapuram (6 Talukas), Madurai (1 Taluk) and Tiruchirapalli (3 Talukas)
18. Uttar Pradesh	Ballia and Jhansi
19. West Bengal	Purulia

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* Proposals for another district under consideration.

UNION TERRITORIES

1.	Andaman & Nicobar Islands	The entire Territory
2.	Dadra and Nagar Haveli	
3.	Laccadive, Minicoy and Amindivi Islands	
4.	N.E.F.A.	
5.	Tripura	
6.	Manipur	
7.	Goa, Deman and Diu	Entire district excluding the area within the municipal limits of their Capitals

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"Backward Areas as Identified by State Government"

District	Taluka/Block	
	1. Andhra Pradesh	
	(107 C.D. Blocks in 14 Districts)	
1. Guntur	1. Tadikonda	7. Nadendla
	2. Rajupalam	8. Gurasala
	3. Phirangipuram	9. Macharla
	4. Tyallur	10. Piduguralla
	5. Korisapadu	11. Vinukonda
	6. Narsaraopet	12. Impur
2. Nellore	13. Vinjamur	16. Velligandla
	14. Rapur	17. Tarlapadu
	15. Kanigiri	18. Tallur
3. Chittoor	19. Thambulapally	
4. Cuddapah	20. Lakkireddipalli	21. Jammalamadugu
5. Ananthapur	22. Singanamala	27. Kalyandurg
	23. Tadipatri	28. Kambadur
	24. Gooty	29. Raydurg
	25. Uravakonda	30. Kankal
	26. Chennakothapally	31. Kadiri West
6. Kurnool	32. Adoni	36. Dhone
	33. Yammiganur	37. Nandikothur
	34. Alur	38. Narkapur
	35. Pathikonda	39. Ranaganapall
7. Mahaboobnagar	40. Mahaboobnagar	47. Kolahpur
	41. Jadcherla	48. Gadwal
	42. Shadnagar	49. Alampur
	43. Kalwakurthy	50. Makthal
	44. Amangal	51. Atmakur
	45. Bijanapally	52. Kodangal
	46. Nagarkurnool	53. Kosgi
8. Hyderabad	54. Ibrahimpatnam	56. Tandur
	55. Chevella	57. Vicarabad
9. Medak	58. Jogipet	60. Zahirabad
	59. Patancheru	61. Narayankhed
		62. Siddipet
10. Nizamabad	63. Bheemgal	65. Kamreedy
	64. Madnoor	66. Demkonda

11. Adilabad	67. Adilabad 68. Boath 69. Nirmal 70. Khanapur 71.	71. Mudhol 72. Laxettipet 73. Asifabad 74. Chinnur 75. Sirpur
12. Karimnagar	76. Gangadhara 77. Bheemadevarapalli 78. Peddapalli 79. Sultanabad 80. Manthani	81. Mahadevpur 82. Metappali 83. Jagtial 84. Vemulawada 85. Sircilla
13. Warrangal	86. Ghanapur 87. Wardhanpet 88. Jangaon 89. Kodakendla 90. Cheriyal	91. Chityal 92. Marripeda 93. Gudur 94. Eturnagaram
14. Nalgonda	95. Mungodo 96. Suryapet 97. Nagaram 98. Ramannapet 99. Mothkur 100. Miryalaguda	101. Peddavoora 102. Devakonda 103. Chintapalli 104. Hazurnagar 105. Kodad 106. Kothagundam 107. Yellandu

2. ASSAM
(Four hill districts)

1. Garo*
2. United Khasi and Jantia*
3. United Mikir and North Cachar
4. Mizo

Besides, there are backward areas in plain districts which are predominantly inhabited by the Tribal population, Scheduled Castes and other Backward Classes.

3. Bihar
(Four districts)

1. Saharsa
2. Darbhanga
3. Champaran
4. Muzaffarpur

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* Now in Meghalaya

4. Gujarat
(56 Talukas in 14 Districts)

1. Amreli	1. Khambha	
	2. Lilia	
2. Kutch	3. Khadir	4. Khevda
3. Kaira	5. Balasiner	
4. Jamnagar	6. Kalyanpur	
5. Junagadh	7. Bhesan	
6. Dangs	8. Dangs	
7. Panchamehals	9. Jambughoda	14. Lunawada
	10. Jhalod	15. Sheher
	11. Dohad	16. Santrampur
	12. Devgadh Baria	17. Halol
	13. Limkhoda	
8. Banaskantha	18. Kankrej	22. Dhanera
	19. Tharad	23. Vav
	20. Danta	24. Santalpur
	21. Deodar	
9. Broach	25. Jhagadia	29. Valia
	26. Dadiapada	30. Sagbara
	27. Nandod	31. Hanset
	28. Vagra	
10. Mehsana	32. Sami	
11. Baroda	33. Chhota Udepur	36. Naswadi
	34. Jambugam	37. Vaghodia
	35. Tilakwada	
12. Blusar	38. Umbargaon	40. Dharampur
	39. Chikhli	41. Bansda
13. Sabarkantha	42. Khedbrahma	45. Malpur
	43. Bayad	46. Meghraj
	44. Bhiloda	47. Vijayanagar
14. Surat	48. Olpad	53. Mandvi
	49. Uchhal	54. Vyara
	50. Nizar	55. Valod
	51. Mahuva	56. Songadh
	52. Mangrol	

5. Haryana

All the districts are under-developed except Mohindergarh and Jind districts which are regarded as undeveloped areas.

6. Jammu & Kashmir

Districts of Ladakh and blocks situated on the ceasefire line.

7. Kerala
(19 talukas in 3 districts)

1. Cannanore	1. Kasargode 2. Hosdur	3. Taliparamba 4. North Wynad
2. Kozhhikode	5. Ernad 6. Tirur	7. South Wynad 8. Quilandy
3. Alleppey	9. Shertallai 10. Kuttanad	11. Karthigappally
4. Trivandrum 5. Kottayam 6. Palghat 7. Quilon 8. Trichur	12. Nedumangad 14. Devicolam 16. Ponnani 18. Karunagappally 19. Chowghat	13. Chirayinkil 15. Udumbanchola 17. Perinthalmanna

8. Madhya Pradesh
(22 districts)

1. Bastar
2. Raigarh
3. Surguja
4. Mandla
5. Jhabua
6. Khar
7. Khargone
8. Bilaspur
9. Sidhi
10. Shahdol
11. Betul
12. Chhindwara
13. Panna
14. Shivpuri
15. Tikamgarh
16. Raisen
17. Rewa
18. Rajgarh
19. Seoni
20. Guna
21. Chhatarpur
22. Shajapur

9. Maharashtra
(6 districts)

1. Chanda
2. Yeotmal
3. Parbhani
4. Bhir
5. Nanded
6. Osmanabad

10. Mysore
(One district)

1. Bidar

11. Nagaland

No area has been identified as backward as the entire State is regarded as backward.

12. Orissa
(Three districts)

1. Kalahandi
2. Bolangir
3. Phulbani

13. Punjab

(Entire district of Hoshiarpur and a few selected areas in 10 Districts)

1. Amritsar	(i) Bet areas of the Sutlej (ii) Area falling between Saqoi nullah and river Ravi in Ajnala Tehsil. (iii) 154 flood affected villages in Patti, Tarantaran and Ajnala Tehsils.
2. Jullundur	Bet areas of the Sutlej
3. Ferozepur	(i) Bet areas of the Sutlej (ii) Nathana Sub-tehsil.
4. Ludhiana	Bet areas of the Sutlej.
5. Hoshiarpur	
6. Ropar	(i) Sub-moutain areas (ii) Bet area of Chankaur Sahib. (iii) Sub-mountain areas in Kharar Tehsil. (iv) Naraingarh Tehsil.
7. Gurdaspur	(i) Bet areas within the jurisdiction of police station Kaunan. (ii) Pathankot tehsil excluding areas included in municipalities of Pathankot, Sujanpur. (iii) Areas between Kiran Nallah and Ravi river. (iv) 38 flood affected villages in Gurdaspur and Batala Tehsils.
8. Bhatinda	Mansa Tehsil.
9. Kapurthala	Bet areas i.e. the entire area of Bholath circle and the whole area of Kapurthala district towards the West of Kartarpur, Kapurthala, Dadwindi old Road and Dadwindi Dall New Ferozepur Road.

10. Sangrur		Sunam Sub-Tehsil.
11. Patiala	(i)	Sub-Tehsil of Samana
	(ii)	Areas covered by Police Stations Lal and Deara Bassi of Rajpura Tehsil.

14. Rajasthan

No area has yet been identified by the State as backward.

15. Tamil Nadu

(31 Talukas in 8 Districts)

1. North Arcot	1. Tirupathar
2. Dharmapuri	2. Hosur 3. Krishnagair 4. Harur 5. Dharmapuri
3. Salem	6. Sankari 7. Tiruchengode 8. Namakhal.
4. Coimbatore	9. Dharapuram 10. Palladam 11. Avanashi
5. Tiruchinapalli	12. Perambalur 13. Udayarpalayam 14. Karur 15. Kalathur 16. Alangudi 17. Tiremayam.
6. Mudurai	18. Dindigul 19. Palani 20. Tirumangalam
7. Ramanathapuram	21. Tiruvadanai 22. Paramakuli 23. Ramanathapuram 24. Mudukulathur 25. Aruppukkottai 26. Sattur

8. Tirunelveli

27. Sankarankoli
28. Kolipatti
29. Nanguneri
30. Tiruchendur
31. Srivaikuntam

16. Uttar Pradesh
(27 Districts)

Eastern Districts

1. Allahabad
2. Mirzapur
3. Varanasi
4. Jaunpur
5. Pratapgarh
6. Sultanpur
7. Faizabad
8. Ghazipur
9. Ballia
10. Azamgarh
11. Deoria
12. Gorakhpur
13. Gonda
14. Basti
15. Bahraich

Bundelkhan Region

16. Jalaun
17. Jhansi
18. Hamirpur
19. Banda

Hill District

20. Naini Tal
21. Almora
22. Tehri Garhwal
23. Garhwal
24. Chambli
25. Uttarkashi
26. Pitheragarh
27. Dehra Dun

17. West Bengal
(4 Districts)

1. Purlia
2. Darjeeling (excluding Siliguri Sub-Division)
3. Sunderbans
4. Bankura

ANNEXURE - 3

List of Industrially Backward Districts selected to qualify for concessional finance from the financial institutions as on August 5, 1971).

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States	Districts
1. Andhra Pradesh	Nalgonda, Medak, Mahbubnagar, Karimnagar, Warangal, Khammam, Chittor, Anantapur, Kurnool, Nizamabad, Srikakulam, Cuddapah, Nellore and Ongole.
2. Assam	Goalpara, Gachar, Nowgong, Kamrup, Mikir Hills and Mizo Hills District.
3. Bihar	Saathal Parganas, Bhagalpur, Palamau Champaran, Suram, Darbhanga, Purnea, Muzaffarpur and Sahrsa.
4. Gujarat	Panchmahals, Kutch, Amreli, Broach, Sabarkantha, Banaskantha, Bhavnagar, Mehsana, Surrendernagar, and Junagadh.
5. Haryana	Mohindergarh, Hissar and Jind.
6. Himachal Pradesh	Chamba, Kinnaur, Kangra, Kulu and Lahaul and Spiti.
7. Jammu & Kashmir	Srinagar, Anantnag, Baramula, Jammu, Kathua, Udhampur, Doda, Ladakh, Poonch and Rajouri.
8. Kerala	Alleppey, Trivandrum, Cannanore, Trichur and Malapuram.
9. Madhya Pradesh	Bastar, Mandla, Surguja, Seoni, Jhabua, Balaghat, Bilaspur, Sidhi, Betul, Rajgarh, Raipur, Dhar, Tikamgarh, Raigarh, Khargone, Shajapur, Shivpuri, Chindwara, Rewa, Panna, Dewas, Mandsaur, Chhatarpur, Guna, Datia, Morena, Vidisha, Narsimhapur, Raisen, Hoshangabad, Damoh, Bhind and Sagar.
10. Maharashtra	Bhir, Osmanabad, Bhandara, Ratnagiri, Aurang Yeotmal, Chanda, Dhulia, Buldhana, Nanded, Parbhani, Jalgaon and Colaba.
11. Meghalaya	Both the districts of United Khasi and Jaintia Hills and Garo Hills.
12. Mysore	Belgaum, Bidar, Bijapur, Dharwar, Gulbarga, Hassan, Mysore, North Kanara, Raichur, South Kanara and Tumkur.

13. Nagaland	Kohima, Mokokchung and Tuensang.
14. Orissa	Bolangir, Mayurbhanj, Dhenkanal, Kalahandi, Balasore, Koenjhar, Koraput and Phulbhani.
15. Punjab	Hoshiarpur, Bhatinda, Gurdaspur and Sangrur.
16. Rajasthan	Jalore, Banswara, Dungarpur, Nagaur, Churu, Alwar, Tonk, Udaipur, Jodhpur, Jhunjhunu, Sikar, Sirohi, Bhilwara, Jhalwar, Jaisalmer and Barmer.
17. Tamil Nadu	South Arcot, Thiruchirapalli, Mudurai, Ramanathapuram, Kanyakumari, North Arcot, Thanjavur and Dharmapuri.
18. Uttar Pradesh	Almora, Azamgarh, Baharaich, Banda, Ballia, Badaun, Chamoli, Fatehpur, Garhwal, Ghazipur, Hamirpur, Hardoi, Pilibhit, Jalaun, Jaunpur, Jhansi, Mainpur, Pithoragarh, Pratapgarh, Rae Bareli, Sultanpur, Tehri Garhwal, Unnao, Uttar Kashmi Barabanki, Basti, Bullandshahar, Etah, Etawah, Faizabad, Gonda, Mathura, Farrukhabad, Moradabad, Shahjahanpur and Deoria.
19. West Bengal.	Purulia, Bankura, Maidanpur, Darjeeling, Malda, Cooch Bihar, West Dinajpur and Murshidabad.

UNION TERRITORIES

1. Andaman and Nicobar Islands	Entire area.
2. Chandigarh	Nil
3. Dadra & Nagar Haveli	Entire Area
4. Delhi	Nil
5. Goa, Daman & Diu	Entire area
6. Laccadive, Amindive & Minicoy Islands	The inhabited Islands.
7. Manipur	Entire area
8. NEFA	Entire area
9. Pondicherry	Entire area
10. Tripura	Entire area

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Background Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1872.

"THE ROLE OF FINANCIAL INSTITUTIONS IN CORRECTING
REGIONAL IMBALANCES
by
Reserve Bank of India

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI.

The Role of Financial Institutions
in correcting regional imbalances
by
Reserve Bank of India

Since independence a number of institutions have been set up, both at the all-India level and at State level, to provide finance for development, industrial and agricultural. These include the Industrial Finance Corporation and the Industrial Development Bank of India among all-India institutions and State Financial Corporations all with a statutory charter in the States all of which are intended to help industrial development. In the agricultural sector, the network of cooperatives which have been drawing heavily on the Reserve Bank of India for the resources they need, and which, but for their own financial and organisational weaknesses, could have drawn even more heavily, have been drawing heavily on the Reserve Bank of India for the resources they need, and which, but for their own financial and organisational weaknesses, could have drawn even more heavily have been supplemented by Land Mortgage Banks at the State Level and the Agricultural Refinance Corporation at the all-India level to provide resources for developmental projects. In addition, the Life Insurance Corporation, although not a developmental agency, has been a major source of finance, not only for industrial and agricultural development but also for strengthening the infrastructure, including power and housing.

All the institutions functioning at the national level have always tried to be liberal when they have had applications for financial assistance for projects from the less developed parts of the country, relaxing their normal standards as far as possible. Nevertheless, it cannot be claimed that we have succeeded in making a significant impact on the problem of regional imbalances in development. The question which this paper considers is what could and should be done in this sphere and how the financial institutions could play a more effective role in mitigating regional imbalances and disparities.

The Problem

Let us first try to analyse the nature of the problem and its underlying causes. These disparities are the product both of natural and historical factors. In a country of the size and the range of climatic variations like ours, it is inevitable that the availability of water, the fertility of the soil, the existence of mineral deposits and the density of population vary from area to area. As a result some areas are naturally richer than others. These disparities can be modified by human effort. However, under foreign rule there was no conscious effort in this direction. The main field of economic activity which was considered important in British days was the making available of certain raw materials, agricultural or mineral,

from India to meet the requirements of British industry. The ports through which the exports took place, and through which incidentally British goods were imported into India, Naturally became the focal points of such development as took place. The communication system was conceived with the main purpose of serving the export and import sectors of the economy linking them to the port towns.

In the post-independent developmental effort there has been greater concern over regional disparities. Some progress in redressing them has no doubt been achieved, perhaps more than is commonly realised. Yet it would perhaps be true to say that the areas which were already developed have made greater progress than the areas which were relatively backward. One reason for this is that industries naturally go to areas which have certain basic facilities, such as power and transport. The understandable emphasis on industrialisation to diversify our economy and to reduce its excessive reliance on agriculture inevitably meant most development took place in areas which, relatively speaking, were already industrialised and developed, particularly the port towns.

The role of credit in the development process is a secondary one. It provides finance for projects and programmes only after they have been initiated. The pattern of financial assistance from the developmental institutions

has followed the pattern of industrial development which was taking place. As a result, the State Financial Corporations in States in which industrial development was slack did less of financing even though they had equal, if not preferential access to refinancing from institutions like the I.D.B.I. Furthermore, within the State their lending was more in the developed parts of the State than in the less developed parts. In respect of all-India institutions given to the point of relaxing some of their standards to applications from less developed areas - for the simple r reason that even applications for assistance from such areas have been exceedingly few.

The Programme

If this vicious circle is to be broken, we should in the Fourth Plan take some special measures to acclerate the development of the areas which are backward. In such a programme, clearly the financial institutions must play their part, but equally action on other fronts will have to be taken if success is to be achieved. In the following paragraphs an attempt has been made to refer to some of the general measures that mav be conducive to this task and also to the special steps which the financial institutions should take towards this end.

1. Identification of Backward Areas within States:

The first thing to do would be to identify the areas to which special attention has to be given. All too often our thinking gets confused by talking of backward States and by equating backwardness with lack of industries. In actual fact, in every State there are areas which are prosperous and areas which are poor. Furthermore, a State like Punjab, although much less industrialised, is far more prosperous than a State like Bengal as the per capita incomes show. An attempt to deal with the problem in terms of the levels of industrialisation in different States creates unnecessary inter.State jealousies and rivalries particularly when the location of a major public sector plant is to be considered, even though when such a plant does get allocated to a particular State, it often gets located in an already prosperous part of it rather than in any of its backward areas. It would be much better to focus attention on districts rather than States for this purpose. The financial institutions themselves cannot exercise this judgement and a selection has to be made perhaps by the Planning Commission in consultation with the States.

2. Provision of Basic Facilities:

Since any programme of development, whether agricultural or industrial, does need a good deal of investment

in the provision of certain basic facilities, it is necessary that in respect of the selected areas appropriate programmes should find a place in the State plans. Things like education, health and transport which not only make a contribution to development but also create a feeling of well-being have necessarily to be looked after by budgetary provisions. However, in the following fields financial institutions can play a part.

(a) Irrigation.

It will perhaps be true to say that the most acute shortage in most of the poverty stricken areas is that of water. Areas which are afficted by frequent droughts have to be helped by appropriate irrigation programmes. In financing minor irrigation projects such as individuals or groups of individuals can take in hand, the land mortgage banks should play a major part with refinance support from the Agricultural Refinance Corporation.

(b) Power:

The programme of rural electrification has already made a major contribution in certain areas. The L.I.C. has been helping Electricity Boards substantially. With the comfortable supply position of power in many States, only the transmission lines are needed to carry power in many States, only the transmission lines are needed to carry

power to areas where they can make the maximum contribution to development. The magnitude of the resources needed for this purpose is too large for financial institutions to be in a position to make anything but a marginal contribution. An inhibiting factor is that most of the State Electricity Boards have not yet made themselves viable units despite recommendations of the Venkataraman Committee. Any credit operation cannot but look to the viability of the project in the sense of the borrower being able to repay the loan out of the earnings resulting from what the loan finances.

3. Agricultural Development:

The financial institutions should play a major part in helping programmes calculated to improve the yield of the land by supply on credit of inputs like fertilisers as well as equipment of various kinds such as tubewells. Such schemes are already in operation.

In the past the main emphasis of finance for the farmer has been on making use of the cooperative system. This has had the drawback that in the States where the cooperative movement is weak, progress has been slow. A proposal to establish at the State level an agricultural Credit Corporation to help agriculture where the cooperative machinery is weak has been under consideration for a long time. Early steps to implement this proposal are called for.

Even in States where the cooperative system is well developed, there are many weaknesses. Existence of a high proportion of overdue loans limits the amount of credit which the Reserve Bank can make available to them. It is essential for State Governments to make special efforts to improve recoveries in the cooperative sector.

4. Industrial Development.

In each State areas which deserve special attention but which have the basic requisites for the setting up of industries should be selected with special care. In respect of these nominated and defined areas a policy of concessional treatment could well be devised in which the financial institutions could play a meaningful role.

Perhaps the quickest results can be obtained by aiming at the establishment of small scale industries in these areas. They offer maximum opportunity to local talents and by making a start in the building up of a trained labour force provide opportunities for medium and large-scale industries to come in also. The one major inducement which has been found to be effective in this respect is the setting up of industrial estates. The L.I.C. has been helping in this. Given a good industrial estate, the facilities available to them from the banking system with the guarantee scheme operated by the Reserve Bank and with refinance facilities from I.D.B.I. should

make it possible for men of relatively small means to enter in the field.

In respect of medium and large-scale industries it still happens to be true that the advantages to them of being located in already industrialised areas and in the metropolitan centres outweigh such disadvantages as they have on cost considerations particularly as in most industries the wages to be paid are nearly as high in backward areas as they are in the well-developed ones. As a rule it is only industries for whom proximity to raw materials is an important factor which find it advantageous to locate themselves away from the already industrialised areas. Concessions to tilt the balance in favour of the backward areas may therefore have to be made on more than one front if a major impact has to be made. The possible fields of concession are:

(a) FISCAL :

Just as priority industries have been given special tax concessions, it should be possible to consider whether industries located in the designated districts could not be given some similar concessions or additional concessions.

(b) PROCEDURAL :

Some relaxations from the requirements of obtaining a licence under the Industries Act have been discussed from time to time. The criteria discussed have been size of the

industry or the extent of their dependence on foreign exchange. It is worth considering whether special exemptions from Industries Act licensing procedures cannot be given to industries located in these districts. Other fields in which concessions could be given would be in respect of certain requirements of Company Law or Capital Issue Control. Specific suggestions are not being made, but, if the approach is accepted, the departments concerned could doubtless formulate proposals.

(c) FINANCIAL

Once the principle of such concessional treatment has been officially accepted, financial institutions could also devise special terms for their loans to industries located in these areas. These could include a somewhat lower rate of interest or a longer moratorium before debt repayment starts.

To sum up, in order to have the maximum impact on the problem of regional imbalances during the Fourth Five-Year Plan a concerted approach is called for in which there should be a selection of the areas on which attention has to be focussed and a determination of the kind of development programme to be undertaken in each of them - whether agricultural or industrial.

5. Organisation of Credit Facilities:

It is conceivable that because the various financing

institutions are located in the more developed parts of the country, the links between them and areas less developed admit of improvement. Absence of close and continuing communication might itself have been a handicap. One of the positive steps therefore proposed by I.D.B.I. and A.R.C. to extend their activities further is to strengthen their own regional net work. This would help to improve accessibility of local financing agencies as well as of local enterprise to central financial resources. The I.D.B.I. also proposes to expand its technical staff to enable a quicker processing of applications and appraisal of projects.

Equally it would be necessary for State Finance Corporations and similar institutions also to have an their staff personnel who could help individual borrowing from these agencies. The possibility of evolving simplified procedures to deal with applications from small and medium-sized industrialists in the mofussil areas also needs to be explored. One of the weaknesses from which many State Financial Corporations suffer is that their chief executive belong to administrative cadres and are liable to frequent transfers in the exigencies of the service to which they belong with detriment to the interests of the financial institutions.

Another weakness which exists is that between the administrative machinery and the Government departments on the one hand and the financial institutions on the other

there is inadequate appreciation of each other's point of view. It might be useful to organise seminars in which financial institutions as well as State executive concerned with agricultural or industrial development participate.

As regards the commercial banking system it is now recognised that the mere presence on a geographically wide basis of credit institutions would itself constitute a spur to economic activity. While the specialised financing agencies for agriculture and industry would continue to have a major part to play, the banking system is also being organised in such a manner that accessibility to its services does not become a bottleneck.

Apart from expanding the branch network, banks would play a role in qualitative terms in evening out regional imbalances. The stress on a greater involvement by banks in the fields of agricultural finance and credit to small industry would help to broaden the geographical range of the operations. The National Credit Council at its recent meeting has set out guidelines for banks in respect of agricultural and small industrial credit in the coming year. The targets in these two areas that have been indicated are related to the present organisational structure of the banks. The problem of organisational changes necessary so as to enable the implementation of the objectives of social control is also being looked into.

In short, all credit institutions must be operated in such a manner as to help the fulfilment of Plan priorities and targets. The formulation of a positive programme for correcting regional imbalances must have the fullest support of all financial institutions though the role of each will have to be defined in terms of its capabilities and orientation.

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Background Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)

"INDUSTRIAL LICENSING POLICY IN RELATION TO REGIONAL DEVELOPMENT"

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI

PLANNING COMMISSION

INDUSTRIAL LICENSING POLICY IN RELATION TO REGIONAL DEVELOPMENT.

At the last meeting of the NDC Committee of State Chief Ministers held on July 11 and 12, 1968 it was decided that a special meeting of the NDC Committee should be called to consider the question of imbalances as between the States in the light of the resolution of National Integration Council. This note deals with the impact of industrial licensing policy on the location and development of industries in different parts of the country.

2. The essential guidelines and framework for industrial growth and development are laid down in the Industrial Policy Resolution dated the 30th April, 1956. The main objectives of the Resolution are:

(i) to accelerate the rate of economic growth, to speed up industrialization and in particular to develop heavy industries and machine making industries;

(ii) to regulate industrial development in accordance with the plan priorities;

(iii) to reduce disparities in income and wealth and to prevent private monopolies;

(iv) to promote the development of industries in the small scale sector and to ensure that the decentralized sector acquires sufficient vitality to be self-supporting;

(v) to ensure progressive reduction of disparities in levels of development between different regions;

(vi) fostering of technological and economic improvements in in ustries by ensuring units of economic improvements in industries by ensuring units of economic sizes and adopting modern processes.

3. With a view to achieve these objective the industries were classified in three categories; industries in category 'A' were to be developed in the State sector, those under category 'B' by the combined efforts of the State and private sector and the remaining to be left for development by the private sector. It was, however, emphasised that there would be no rigidity between public and private sectors. This has actually been the practice in implementation also.

4. The principal instrument of industrial planning through which the above objectives are sought to be achieved is the Industries (Development and Regulation) Act, which has been in force since 1952. The following categories of cases require licences under the various provisions of the above Act:

(a) New undertakings relating to the industries mentioned in the schedule of the Act provided they have fixed assets of not less than Rs.25 lakhs in value. Originally this limit was Rs.10 lakhs and from January, 1964 this has been raised to Rs.25 lakhs.

(b) Existing undertakings which propose to effect substantial expansion as defined in the same Act.

(c) The manufacture of new articles as defined in the Act.

(d) Carrying on the business of existing undertakings which for one reason or another had not so far been registered or licensed under the Act.

(e) Shifting of existing undertakings from one location to another.

The Schedule given in the Act is very comprehensive and covers a long list of industries. Some of these have recently been delicensed and, therefore, do not have to secure licenses under the Act. Ministry of Industrial Development bring out a list every six months (now annually) containing details of the industries in respect of which applications for licences may ordinarily be rejected without reference to the Licensing Committee. Simultaneously another list is brought out of industries for which applications are to be considered on merits.

5. The applications for industrial licences are examined keeping in view the plan targets and the capacities already installed and the above mentioned objectives of the Resolution. Thus, the claims of backward regions are also kept in view while considering the applications for licences and other things being equal, location in such areas is preferred. The

progress, programmes and production targets of a number of industries in the private sector are examined from time to time with a view to securing the location of units on zonal basis. In certain industries like cotton textiles, power looms etc. which can be originally developed special State-wise allocations have been made by the Government. The policy followed regarding the licensing of new units in the sugar industry has assisted development in the peninsula. There has been widespread diffusion in a wide range of other consumer goods and processing industries such as bicycles, sewing machines, electrical motors, radio receivers, paper, cement etc. The dispersal of industry is also achieved in asmuch as there is a banned list of industries for which no licences are given and which are left to be developed in the small-scale sector which by its very nature is dispersed in the country.

6. There are, however, two major limitations which have to be taken into account in considering the role of the licensing policy in the context of the regional development and dispersal of industries. The first limitation arises from broad techno-economic considerations which are often paramount in the locational decisions of industrial units. Thus, the availability of raw materials, infrastructure facilities and market considerations will be decisive factors in entrepreneurial decisions in the private sector on proposals which are brought before the Licensing Committee. To the

extent these considerations are relevant, it would not be possible to bring about an equal distribution of different industries in various States. Natural endowments in a particular State may attract the development of an industry in a more concentrated form in that State, while for some other industries certain other States may provide greater advantages. It is only with respect to such of the industries for which locational considerations are not particularly important that some measure of dispersal through the licensing mechanism can be secured. As already indicated above, this has been attempted wherever possible. The second important limitation is the nature of the powers, which are essentially negative, provided in the Licensing Act. Thus, the Government can refuse to give a licence for a particular industry on the grounds of location, but it has no powers to compel any industrial entrepreneur to set up an industry in a particular place. This essential limitation which leaves considerable freedom for the location of industries to the violation of the private sector will have to be kept in view in the discussion on the role of the licensing policy in bringing about regional dispersal of industries. As stated later in this note it is only through the creation of an appropriate climate and conditions in which private entrepreneurs is attracted to backward regions can a major impact on the regional dispersal of industries be secured.

7. A detailed analysis of the industrial development, since the introduction of the Industries (Development & Regulation) Act on a State-wise basis is extremely difficult on account of the paucity of data on a reliable and comparable basis on the investments made, employment provided etc. by the industrial units that have been set up since 1952. Information readily available is confined to the number of industrial licences issued from 1952 to 1967. A statement showing the State-wise and yearly distribution of licences issued under the Industries (Development & Regulation) Act during this period is enclosed as Annexure I. The number of licences issued is by itself not an adequate indication of the progress since the nature of industries, the extent to which licences have actually been implemented, the actual investments made, and other similar information would also be needed for a more careful analysis. In the absence of these data the information contained in Annexure I gives the broad trend over the last 16 years. In terms of the number of licences issued, Mhharashtra, West Bengal, Madras and Gujarat account for almost 60 per cent of the total number; the remaining 40 per cent are dispersed in particularly all the States. The share of some of the comparatively less developed States have gone up slightly, for example, Rajasthan get about 2.1 per cent of the total number of licences issued during 1958-67 as compared to 1.5 per cent in 1952-57. Similarly, Bihar got about 5.3 per cent

in 1958-67 as compared to 4.2 per cent in 1952-57.

8. While it has not been possible to make a thorough analysis of the effect of licensing over the entire period of 1952 to 1967, the broad conclusions reached by Prof.Hazari, who was appointed by the Planning Commission in July, 1966, to conduct a study of licensing, may be briefly mentioned as an indicator of the trend of the recent developments during the period 1959-66. For this period, Professor Hazari has made a rough estimate of approved investments on a State-wise basis in terms of schemes approved by the Licensing Committee. The data used by Professor Hazari are subjected to a number of limitations but are sufficient to give the broad trend. The statement at Annexure II indicates the approved investments during 1959-66 in different States as indicated in the Hazari Report. It would be seen from this table that the bulk of the approved investment during the above period has been in Maharashtra, West Bengal, Madras, Uttar Pradesh, Bihar, Madhya Pradesh, Andhra Pradesh and Gujarat in that order, with Maharashtra on the top. About 46 per cent of the approved investment was in the three States of Maharashtra, West Bengal and Madras.

9. Annexure III gives the State-wise break-up of investment for new undertakings, substantial expansions and new articles. The share of Maharashtra, West Bengal and Gujarat in substantial expansions and new articles is larger than in new undertakings. The less advanced States have secured a larger

share of new undertakings. The approved investment for new undertakings in West Bengal during 1959 to 1966 was Rs.100 crores only, against Rs.170 crores in Maharashtra, Rs.128 crores in Madras, Rs.117 crores in Bihar, Rs.116 crores in Madhya Pradesh, Rs.83 crores in Uttar Pradesh, Rs.66 crores in Andhra Pradesh, Rs.64 crores in Rajasthan. Professor Hazari also came to the conclusion that the investment of domiciled foreign houses was restricted to the old Presidency areas, West Bengal, Madras, Assam, Maharashtra and Bihar. International combines dispersed their investment a little more widely but in their case too the old Presidency areas were predominant. Another significant conclusion arrived at by Professor Hazari is that there is a declining trend in the approved investment in industrialised States like Maharashtra and West Bengal, for example, the share of Maharashtra in the total approved investment fell from 27 per cent in 1959 to 17 per cent in 1964-66 (June). On the other hand the share of Madras and Bihar has arisen significantly from 8 and 6 per cent respectively in 1959 to 14 and 12 per cent respectively in 1964-66(June).

10. As already indicated the role of the industrial licensing system in the dispersal of industry has been rather limited. The Act does not empower the Government to force an industrial entrepreneur to set up industry in a particular State

or place. As balanced regional development is one of the important objectives of planned development it is essential that industries are attracted to the backward regions. For that purpose it is necessary that the required facilities should be made available in those areas which would induce the industrialists to set up industries there. Two important programmes have been initiated from the Third Five Year Plan period in this connection. One is the establishment of industrial areas wherein all the infra-structural facilities required for industrial development are provided. Another measure is the promotional activities of the Industrial Development Corporations which have recently been set up in most of the States. These two measures coupled with the Government policy of locating public sector enterprises in relatively under-developed areas subject to techno-economic considerations are likely to lead to greater dispersal of industry over a period of time.

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ANNEXURE I

Industries (Dev. & Reg.) Act, 1951
Statement of licences issued

State-wise

State	1952 to 1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	Total
Andaman & Nicobar	2	1	-	-	-	1	-	1	-	-	-	5
Andhra	77	15	31	45	48	46	24	41	22	19	11	379
Assam	18	7	14	25	12	10	8	4	2	2	3	105
Bihar	91	16	19	53	40	90	86	40	64	52	20	571
Delhi	56	12	44	45	23	12	12	4	4	-	3	215
Goa	-	-	-	-	-	-	4	2	5	2		13
Gujarat	173	59	99	129	131	122	82	66	38	33	31	963
Haryana	-	-	-	-	-	-	-	-	-	13	9	22
Himachal Pradesh	-	-	2	2	-	1	1	1	1	-	-	8
Jammu & Kashmir	-	-	-	-	-	2	2	1	1	-	-	6
Kerala	54	16	24	140	60	35	21	20	7	11	7	395
Laccadive	-	-	-	-	-	-	-	-	-	-	-	-
Madhya Pradesh	56	5	12	40	34	42	38	12	17	13	6	275

(Cont'd)

States	1952 to 1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	Total
Madras	282	72	142	148	105	74	80	144	55	30	17	1149
Maharashtra	504	224	382	506	424	275	246	183	127	112	101	3084
Manipur	-	-	-	-	-	-	1	1	-	-	-	2
Mysore	84	13	34	73	39	36	26	34	20	14	7	380
Naga land	-	-	-	-	-	-	-	-	-	-	-	-
NEFA	-	-	-	-	1	-	-	-	-	-	-	1
Orissa	41	11	10	16	12	19	11	10	5	6	2	143
Pondicherry	-	-	-	-	1	2	-	4	7	-	-	14
Punjab	161	37	94	131	82	68	67	43	25	19	4	731
Rajasthan	32	7	10	30	29	32	21	8	14	10	10	203
Tripura	-	-	-	-	-	-	1	1	-	-	-	2
Uttar Pradesh	172	42	68	134	104	49	50	40	47	29	13	748
West Bengal	379	122	217	309	209	184	169	161	65	50	48	[illegible]54
Total:	2182	659	1202	1826	1354	1100	950	761	527	415	292	11268

ANNEXURE II

Approvals ** by States

1959-June 1966

(Percentages)

State		1959	1960	1961	1962	1963	1964	1965	1966	Total
Grand Total	No	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Investment	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Andhra	No	2.29	3.06	3.79	2.76	[illegible]	3.37	4.46	2.18	3.09
	Investment	2.64	4.89	6.70	9.13	5.13	3.62	3.06	7.73	5.40
Assam	No	1.14	1.60	1.65	0.64	0.59	0.00	0.00	0.00	0.82
	Investment	0.47	1.76	5.66	2.20	0.23	0.00	0.00	0.00	1.27
Bihar	No	1.86	2.77	2.84	4.03	4.10	2.62	5.13	2.81	3.19
	Investment	5.94	3.44	2.11	4.57	6.39	9.42	17.10	1.97	7.52
Delhi	No	5.73	5.83	2.36	2.54	0.39	2.06	1.12	4.23	2.10
	Investment	2.62	8.27	0.75	0.78	0.11	0.71	0.34	1.05	2.09
Jammu & Kashmir	No	0.00	0.00	0.00	0.00	0.58	1.87	0.00	0.00	0.10
	Investment	0.00	0.00	0.00	0.00	0.34	0.07	0.00	0.00	0.05
Gujarat	No	5.01	5.83	10.88	8.70	7.22	8.24	8.03	9.15	7.46
	Investment	2.65	2.55	8.24	2.96	5.23	3.54	4.72	7.04	4.95
Madhya Pradesh	No	1.60	3.20	2.65	[illegible]	4.90	1.30	3.35	1.41	3.94
	Investment	10.12	1.30	1.31	13.56	13.67	3.29	5.39	0.48	7.20
Kerala	No	2.15	2.04	3.55	2.55	2.15	0.94	2.23	2.11	2.17
	Investment	2.09	1.54	2.97	2.57	4.37	2.22	0.81	1.25	2.26

(cont'd

State		1959	1960	1961	1962	1963	1964	1965	1966	Total
Madras	No	7.74	8.18	7.11	8.70	7.42	8.43	9.60	9.15	8.18
	Investment	7.86	7.07	12.40	6.09	6.57	13.75	8.80	41.03	10.14
Maharashtra	No	35.37	31.39	32.46	31.42	31.05	32.77	26.79	33.10	31.93
	Investment	23.57	20.36	29.97	28.88	15.77	18.51	10.51	12.28	21.46
Mysore	No	5.01	2.63	2.84	3.02	3.71	3.56	3.57	4.23	3.66
	Investment	7,76	4.01	2.61	1.44	6.53	6,58	4.96	6.69	4.73
Orissa	No	0.72	1.02	0.24	2.76	1.37	1.69	0.45	1.41	1.18
	Investment	1.00	0.78	0.07	6,85	1,30	3,75	1.45	1.43	2,49
Punjab, Haryana and Himachal	No	5.16	5.55	6.16	7.22	8.40	7.87	10.49	6.34	7.03
	Investment	2.45	4.16	5.04	2,09	6,71	5.47	5,24	2.07	4.36
Rajasthan	No	1.00	1.02	3.55	2.34	1.17	1.12	2.46	0.00	1.61
	Investment	0.33	0.74	2.51	1.52	1.10	1.27	14.06	0.00	3.25
U.P	No	3,87	6.42	4.27	4.25	3.91	5.81	8.48	3.65	5.27
	Investment	11.08	18.32	4.82	2.70	6.93	4.18	5.49	3.10	7.04
West Bengal	No	21.35	20.86	15.40	14.01	19.53	17.79	13.17	18.31	17.97
	Investment	19,42	20.76	14.49	14.68	11.20	13,05	9.24	13.79	14.53
Other	No	0.00	0.15	0.24	0.21	0.78	0.56	0.67	0.00	0.33
	Investment	0.00	0.08	0.26	0.00	1.36	0.34	0.33	0.00	0.36

** Excluding those for which investment data are not available.

ANNEXURE ...

APPROVALS BY STATES AND TYPES
1959- June 1966

(Amounts in crores)

State	NU				SE				NA			
	Number data available	%	Investment	%	Number data availabe	%	Investment	%	Number data availabe	%	Investment	%
Grand Total	1827	100.00	1133	100.00	1153	100.00	575	100.00	932	100.00	237	100.00
Andhra	64	3.50	66	5.83	29	2.52	32	5.57	28	3.00	6	2.53
Assam	25	1.36	24	2.12	5	0.43	Neg	9.00	2	0.21	1	0.42
Bihar	70	3.84	117	10.33	38	3.30	20	3.48	17	1.82	9	3.80
Delhi	66	0.61	34	5.00	30	2.60	4	0.70	30	3.22	3	1.27
Jammu & Kashmir	1	0.05	neg	0.00	3	0.26	1	0.17	-	0.00	-	0.00
Gujarat	140	7.66	49	4.32	78	6.76	31	5.39	74	7.94	17	7.17
Kerala	47	2.57	32	2.82	26	2.25	11	1.91	12	1.29	2	0.84
Madhya Pradesh	77	4.21	116	10.24	21	1.82	15	2.61	12	1.29	10	4.22
Madras	170	9.30	128	11.30	91	7.89	50	8.69	59	6.33	19	8.02
Maharashra	501	27.44	171	15.10	402	34.87	171	29.74	345	37.03	74	31.22
Mysore	51	2.79	49	1.32	63	5.48	35	6.09	29	3.11	8	3.38
Orissa	32	1.75	44	3.88	8	0.69	1	0.17	6	0.64	3	1.27
Punjab Haryana and Himachal Pradesh	157	8.59	64	5.65	40	3.47	9	1.56	78	8.37	12	5.06
Rajasthan	444	2.41	53	4.67	8	0.69	5	0.87	11	1.18	5	2.11
Uttar Pradesh	121	6.62	83	7.33	45	3.90	56	9.74	40	4.29	16	6.75
West Bengal	252	13.81	100	8.83	263	22.81	130	22.61	188	20.17	52	21.94
Other	9	0.49	3	0.26	3	0.26	4	0.70	1	0.11	neg	0.00

NU -- New Units
SE -- Substantial Expansion
NA -- New Articles

Background Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1972.

"THE OPERATIONS OF FINANCIAL INSTITUTIONS"

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
New Delhi.

PLANNING COMMISSION

Subject:- The operations of Financial Institutions.

Statements 1 to III give the Statewise classification of sanctions and disbursements of financial assistance by I.D.B.I., I.F.C. and S.F.C's. Statement IV gives the financial assistance sanctioned by A.R.C. and Statement V shows the loans given by Reserve Bank of India to the cooperative sector during 1963-64 and 1967-68.

Industrial Development Bank of India

2. The Industrial Development Bank of India was set up in July 1964 as an apex institution to coordinate the activities of other financial institutions including banks. Since its establishment, it has been providing term-finance to industry and providing medium and long-term financial assistance to the industrial units ensuring the flow of funds to projects which conform to the plan priorities. The I.D.B.I. is also designed to function as a developmental agency in strategic sectors such as fertilizers, alloy and special steel and petro-chemicals.

3. Although the I.D.B.I. is empowered to finance all types of projects both in the private and public sectors, for the time being and due to paucity of resources, it has so far restricted itself to the financing of private sector enterprises. There are no restrictions as regards the nature or type of security that may be accepted from

industrial concerns, nor are any maximum or minimum limits prescribed for assistance to a concern. In practice, for complementing the activities of other financing agencies, the I.D.B.I. plays a larger role for direct assistance in relatively bigger projects, though for indirect financial assistance through other financing agencies, refinance of smaller amounts of Rs.1 lakh and above are entertained.

4. The operations of IDBI fall into two broad groups: (a) assistance to other financial institutions, (b) direct assistance to industrial concerns. The first covers refinancing of loans given by other institutions and subscribing to their shares and bonds as well as guaranteeing their underwriting obligations in connection with the share and bond issues of industrial concerns. The IDBI provides refinance in respect of term loans to industrial concerns given by the I.F.C.:, the SFCs (including the Madras Industrial Investment Corporation) other financial institutions notified by the Government (such as the ICICI) as well as the scheduled banks and State Cooperative banks. Besides, export credits granted by any of the above mentioned institutions are eligible for refinance. Thus, the IDBI provides refinance to a larger number of financial institutions and for longer periods than the Refinance Corporations and for longer periods than the Refinance Corporation for Industry Limited (R.C.I.) whose business was ta en over by the I.D.B.I. from 1st September, 1964.

5. Direct financial assistance to industrial concerns may be in the form of granting loans and advances, subscribing to, purchasing or underwriting of stocks, shares, bonds, or debentures; guaranteeing deferred payments due from industrial concerns to third parties and loans raised by them in the open market or from financial institutions. the I.D.B.I. also accepts and rediscounts commercial bills or promisory notes of industrial concerns. While providing direct assistance, the I.D.B.I. secures the collaboration of other institutions in the matter of financial assistance and fills the gap itself.

6. Thus, the IDBI functions within the general framework of Government's policies and programmes of industrialisation and has utilised its limited funds in the building up of efficient units in the priority sectors.

7. The I.D.B.I.'s operational policies are constantly reviewed. In October 1965, it was decided that assistance to small projects be arranged more adequately by other institutions whose resources could be augmented by I.D.B.I. so that I.D.B.I. could have more effective assessment and supervision of the large-sized projects. Following the devaluation of the rupee in June, 1966, emphasis was placed on industries with a significant element of import substitution or export promotion. In October, 1966, it was considered necessary to emphasise maximum self-financing of projects by the promoters and the financial institutions were urged

to adopt a more selective approach in sanctioning assistance to ensure more balanced regional development. As regards refinance, it was decided to pursue the policy of diverting applications from banks in large amounts to direct assistance. The cooperation of commercial banks has also been enlisted on a larger scale to provide loans and guarantees and underwriting of capital in important projects involving large expenditure. In respect of two fertilizer projects, although initially large assistance was sanctioned by IDBI, the bulk of it was subsequently taken up by a consortium of a number of commercial banks organised under the leadership of IDBI, besides the IFC, the ICICI and the LIC. As regards refinance, inspite of slowing down of assistance lately, the interests of small and medium-sized units and the under-developed regions have been kept in view.

8. Thus the IDBI has provided sizeable assistance in the sphere of medium and long-term finance to the industrial units in the private sector. Its operational policies have been selective, directed mainly towards the building up of efficient units in the priority schemes. In suitable cases also, special consideration has been given to the needs of the under-developed regions and of projects promoted by technician-entrepreneurs.

9. In the context of the recessionary tendencies, the IDBI has modified its scheme for rediscounting of bills arising out of sales of indigenous machinery on a deferred

payment basis so as to widen its scope to cover financing of capital equipment in agriculture and small industry. The period of export credit is also being suitably lengthened to help promotion of exports. The operations of I.D.B.I.over 1964-68 (July-June) are given in Statement I.

Industrial Finance Corporation.

10. Since its establishment on 1st July, 1948, the Industrial Finance Corporation has been providing medium and long-term finance to public limited companies and cooperative societies engaged in the manufacture or processing of goods or in mining or generation or distribution of electricity etc. Thus, individuals, firms based on partnership or private limited companies are excluded from the purview of the I.F.C.'s operation. The I.F.C. can at present (a) grant loans or subscribe to debentures of industrial concerns repayable within a period of 25 years secured by sufficient pledge, hypothetication or mortage of tangible assets, (b) underwrite the issue of stocks, shares and debentures,(c) guarantee loans floated in the market repayable within 25 years, (d) subscribe directly to the shares or stocks of companies and also (e) convert loans granted or debentures subscribed into stocks or shares of the undertaking concerned. The corporation is thus primarily a lender and not a p r tner in industry. Its policy is broadly to finance the acquisition of fixed assets, namely, land, buildings, plant and

machinery or extension of the same. Its aim is thus to supplement rather than compete with the activities of commercial banks. Applications for loans are examined with reference to (a) the financial position of the company as revealed by a study of balance sheets or an inspection of the accounts and assets (b) the technical soundness of the scheme and competence of management and (c) the importance of the industry in the economy of the country and prospects of its success. Further the concern applying for assistance has to provide a reasonable proportion of the required finance through its own contribution before it could receive any aid from the I.F.C.

11. Under the Industrial Finance Corporation (Amendment) Act 1957 which came into force from December 21, 1957, the Corporation was empowered to give guarantee on behalf of parties able to import goods on deferred credit granted by foreign manufacturers. The Amendment Act also enabled a large number of industries, including new industrial concerns, which were not in a position to offer adequate security but deserved encouragement from the point of view of the national economy to avail of the corporation's loan assistance, if such assistance was guaranteed as to the repayment of the principal and payment of interest by the Central Government, State Governments, a scheduled bank or a State Cooperative bank.

12. To afford special encouragement to industrial cooperatives the I.F.C. has been extending financial assistance to them. Total financial assistance sanctioned to industrial cooperatives upto June 1968 amounted to Rs.57.1 crores, a major portion of which represented loans to sugar cooperatives in different States. The operations of I.F.C. since its inception upto the end of June, 1968 are shown in Statement II.

State Financial Corporations.

13. Following the establishment of the Industrial Finance Corporation in July 1948, some State Governments took steps to establish similar Corporations in their States. The Madras Industrial Investment Corporation (MIIC) was established in March, 1949. In December, 1950, a Bill was introduced (enacted on 28th September 1951) in the Union Parliament to enable State Governments to set up State Financial Corporations to assist medium and small-scale industries in the States. The S.F.Cs were expected to supplement the work of the I.F.C. in the sphere of industrial finance. By the end of June, 1968 there were eighteen State Financial Corporations in the country. The State Financial Corporation Act 1951 was further amended in March 1962 and came into force in April, 1962. It empowered the Corporations to guarantee (a) loans raised by industrial concerns from scheduled banks or State Cooperative banks and (b) deferred

payment due from any industrial concern for purchase of capital goods within India. The Amendment Act also enhanced the limit of accommodation in respect of public limited companies and cooperative societies from Rs.10 lakhs to Rs.20 lakhs. The definition of an industrial concern was also extended to cover hotel and transport undertakings as also industrial estates. The operations of S.F.Cs. over 1960-68 (April-March) are shown in Statement III.

The Agricultural Refinance Corporation.

14. The Agricultural Refinance Corporation gives refinance facilities to cooperative and commercial banks anywhere in the country against their medium and long-term loans for schemes of land development, minor irrigation, fisheries, animal husbandry, horticulture and plantation of fruit, tea, coffee rubber and cardamom. The location of such schemes would depend on the initiative and promotional activity of the local authorities including the State Governments, the local banking institutions, local enterprise and the physical resources of the area and their potential for development. The Agricultural Refinance Corporation does not make any allocations scheme-wise or Statewise.

15. As on 30th June, 1968 the Corporation had received 288 schemes of a total proposed outlay of Rs.249.9 crores. Of these the Corporation has already sanctioned 128 schemes with a financial outlay of Rs.107.6 crores, the Corporation's

commitment being for Rs.90.6 crores. Drawals totalling Rs.12.7 crores had been made by the financing banks in respect of 42 of the sanctioned schemes.

16. The largent number of schemes (57) was received from Andhra Pradesh followed by Mysore (51), Madras (29), Kerala (22), Punjab (21) and Uttar Pradesh (21). Some of the States did not formulate any scheme during initial years of the functioning of the Corporation. Of the total number of schemes received the majority were received during 1967-68, in which period 89 schemes involving a financial outlay of Rs.28.2 crores were sanctioned. The States of Assam, Orissa, Rajasthan, Jammu & Kashmir and West Bengal and the Union Territories have so far formulated schemes with an outlay of less than Rs.5 crores in all. Among the Union Territories only Delhi has so far formulated scheme.

17. The rate of disbursement of refinance sanctioned by the Corporation would depend not so much on the total outlay sanctioned for the particular scheme but the phasing of its implementation and the strength of the financing agency. Most of the schemes sanctioned are to be implemented over a period of several years. The actual disbursement in any one year would therefore be small in comparison with the total commitment made by the Corporation. Hence the discrepancy noted above between the total commitment of the Corporation and the actual refinance disbursed. Moreover, since as many as 89 schemes were submitted and sanctioned

in 1967-68 their implementation which is still in its initial stages will not be reflected in the figure of disbursement of refinance until later this year or next year. The largest aggregate of loans drawn by financing agencies pertains to Andhra Pradesh as this State had formulated several schemes very early in the life of the Corporation. The Central Land Mortage Bank of Andhra Pradesh was thus able to draw a much larger sum from the Corporation than any bank in any other State. The amount of Rs.1.99 crores drawn by the financing agency in Madras State mainly pertains to a large land reclamation scheme sanctioned by the Corporation in 1964-65. The State of Mysore, Maharashtra, Punjab and Haryana have also been able to avail of significant assistance because of their better organised land development banking structure. Similarly, Assam, Gujarat, Kerala and Jammu & Kashmir were able to make good progress in schemes of plantation and horticulture comparatively little progress has been made in Orissa despite the sanction of a coconut plantation scheme in 1963-64 and in Rajasthan and Madhya Pradesh despite the sanction of large reclamation and land development schemes in the Chambal project areas in 1965-66 and 1966-67 respectively. A large land development scheme in the Kosi project area of Bihar was sanctioned in 1966-67 but owing to the organisational weakness of the Bihar Central land Mortgage Bank the finance drawn from the Corporation has been comparatively small. Similarly in

West Bengal very little progress in the disbursement of loans has been made in respect of two coconut and arcanut plantation schemes sanctioned in 1965-66. The operations of A.R.C. upto June 1968 are shown in statement IV.

Reserve Bank of India and Co-operative Credit

18. The Reserve Bank of India provides short-term loans to the cooperative credit system for financing seasonal agricultural operations and marketing of crops in addition to giving medium-term loans for agricultural purpose and also for conversion of short-term into medium-term loans in circumstances arising from natural calamities. The Reserve Bank also provides short term loans to the cooperative credit system for trading in yarn, financing the production and marketing activities af approved cottage and small scale industries and financing the purchase, stocking and distribution of chemical fertilisers. In the sphere of long-term credit the Reserve Bank purchases the ordinary and rural debentures floated by central land development banks. Besides, the Reserve Bank grants long-term loans to the State Governments to enable them to take share in cooperative credit institutions and thus increase their ability to borrow more from the higher financing agencies. The operations of the Reserve Bank in the sphere of cooperative credit during 1963-64 and 1967-68 are given in Statement V.

Short-term loans for seasonal agricultural operations and marketing of crops

19. The Reserve Bank's rural credit operations are governedby two main considerations, viz., the need generated by programmes of intensifying agricultural production and the financial and organisational capacity of the infra-structure of cooperative credit through which funds are to be channelled. More distribution of additional funds to co-operatively weak States in the hope of removing or reducing regional imbalances will not yield useful results if the co-operative credit structure in these States is not able to absorb the additional loans provided. The disparities in the flow of financial accommodation from the Reserve Bank may continue even after the capacity of the infra-structure in the different States is raised to rbe required levels because of the disparities in the potentialities of agricultural growth. This was special reference to availability of irrigation system and sub-soil water resources. Disparities may continue as between States for the other reasons also such as the internal weaknesses of the infra-structure in certain States. Attention has, therefore, to be given for a considerable time to come to the removal of these weaknesses and strengthening of the structure financially as well as administratively.

20. Some of the States with a weak co-operative structure

have been able to enjoy comparatively larger credit from the Reserve Bank of India during 1963-64 to 1967-68. By contrast, in some of the cooperatively advanced States, credit from the Reserve Bank of India did not increase substantially. The effectiveness of the agricultural development programmes in the area, apart from the health of the co-operative credit structure is an important factor bearing upon the extent of credit facilities made use of by the co-operative credit structure in the various States. Thus, because of the increase in the tempo of agricultural programmes, the Reserve Bank's credit to the co-operatives in Punjab (undivided) rose from Rs.8.48 crores in 1963-64 to Rs.25.49 crores for the present Punjab State in 1967-68.

Loans for financing the production and marketing activities of handloom weaver's societies and trading in yarn.

21. The handloom weaver's co-operative movement is relatively developed in a few States, notably in Andhra Pradesh and Madras and to some extent in Kerala and Mysore. In these States, the co-operative credit systems have been able to avail of the major part of the financial facilities provided by the Reserve Bank for the production and marketing activities of handloom weavers' co-operative societies and also for trading in yarn.

Short-term loans for financing the purchase and distribution of fertilisers.

22. This scheme was introduced in 1967 in order to enable

the smooth change-over from the system of Government consignment credit to bank credit for financing the purchase and distribution of chemical fertilisers. In those States where consignment credit facilities from the Government still prevail, not much use has been made by the co-operative credit structure of the credit facilities provided by the Reserve Bank.

Medium-term loans for agricultural purposes.

23. The amount allocated by the Reserve Bank of India as medium-term loans for agricultural purposes to co-operative banks increased from Rs.17.50 crores in 1963-64 to Rs.30,00 crores in 1967-68. However, the amount sanctioned has remained more or less at a level of Rs.14.16 crores during this period. The basic reason for this is the absence of genuine medium-term credit programmes of the co-operative banks which are specially oriented to medium-term productive purposes which are identifiable. Even in a co-operatively advanced State as Maharashtra, the amount allocated by the Reserve Bank has increased only to a relatively small degree from Rs.2.25 crores in 1963-64 to Rs.3.60 crores in 1967-68. The amount drawn increased from Rs.0.11 crore to Rs.0.45 crore. In Gujarat, while the amount allocated by the Reserve Bank increased from Rs.1.25 crores to Rs.2.10 crores, the amount drawn increased from Rs.0.31 crore to Rs.0.76 crore. In Punjab, while the amount allocated by the Reserve Bank increased from Rs.1 crore in 1963-64 to Rs.2.40 crores during

the same period.

24. To sum up, the utilisation of medium-term credit limits sanctioned by the Reserve Bank to co-operative banks can improve only if there are identifiable programme of medium-term investment which can be financed by the co-operative banks.

Medium-term (conversion) loans

25. The assistance from the Reserve Bank's National Agricultural credit (Stabilisation) Fund for conversion of short-term loans into medium-term loans is governed by the need for conversion in specific contexts, viz. drought, famine or other natural calamities affecting the ability of the cultivators to repay the loans taken from their co-operative societies. Thus, States where natural calamities have unfortunately been prevalent in the last few years e.g. Bihar, Rajasthan, Madhya Pradesh, Mysore and Uttar Pradesh have utilised the bulk of the financial assistance for conversion of short-term loans into medium term loans.

Loans from the National Agricultural Credit (Long-term Operations)

26. The Reserve Bank sanctions loans to the State Governments to enable them to take shares in co-operative credit institutions. The amount sanctioned to each State depends upon the lending programmes of the banks because the additional share capital is required to support the

to support the lending programmes. Thus, for banks which have no substantial and realistic lending programmes, very little or no increase in share capital is required and consequently they do not need share capital assistance from the State Governments. Further, in respect of extremely weak banks e.g. those having heavy overdues, no loans are sanctioned by the Reserve Bank for share capital participation as the problems in their case is one of rehabilitation. If there is a concrete programme for such rehabilitation, loans for share capital contribution are sanctioned as part of such a programme.

Purchase of debentures of land development banks.

27. The support from the Reserve Bank to the debenture floatation programme of land development banks has remained at about Rs.5 crores during the past three years. Other public sector institutions which provide such support, apart from the State and Central Governments, are the Life Insurance Corporation and the State Bank of India. Recently, commercial banks have been providing substantial support to the debentures floated by central land development banks. States with relatively weak cooperatives are accorded greater support from the public sector institutions for their debenture floatation programmes.

28. The Reserve Bank also initiated a scheme in 1964 for setting up Agricultural Credit Corporations in Assam, Bihar Orissa, Rajasthan and West Bengal for providing credit

facilities for agricultural production in such States. The supply of agricultural credit from the Reserve Bank is expected to increase appreciably in these States when the Corporations are set up and start functioning.

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STATEMENT I

State-wise Classification of Financial Assistance sanctioned and disbursed by Industrial Development Bank of India during July 1964 - June 1968.

(Rs. in crores)

	Sanctions						Disbursements				
	Refina-nce	Loans	Under writi-ngs.	Redis counting	Total	Guraran-tees.	Refina-nce.	Loans	Under writings	Re-dis counting	To
	1	2.	3	4	5	6	7	8	9	10	
Andhra Pradesh	5.34	9.85	0.82	–	16.01	–	4.76	9.20	0.57	–	14.
Assam	0.12	–	–	–	0.12	.	0.12	–	–	–	0.
Bihar	0.94	6.08	1.90	0.21	9.13	–	0.81	0.35	0.09	0.18	1.
Gujarat	6.23	18.00	3.93	0.90	29.06	5.12	7.33	18.00	3.72	0.78	29.
Haryana	1.25	–	0.20	–	1.45	–	1.55	–	0.10	–	1.
Jammu & Kashmir	–	–	–	–	–	–	–	–	–	–	–
Kerala	1.38	1.10	0.04(a)	–	2.52	–	0.95	1.05	0.04	–	2.
Madhya Pradesh	2.86	–	0.49	0.36	3.71	–	2.87	–	0.49	0.31	3.6
Madras	15.71	12.98(b)	2.64	2.92	34.25	–	15.17	3.40	0.79	2.52	21.8
Maharashtra	22.25	22.05	5.07	11.94	61.31	12.39(b)	22.73	19.70	4.63	10.27	57.3
Mysore	2.94	2.17	0.39	0.67	6.17	–	2.64	1.61	0.28	0.58	5.1
Nagaland	–	–	–	–	–	–	–	–	–	–	–
Orissa	0.41	0.60	0.35	0.20	1.56	–	0.36	0.45	0.35	0.17	1.3
Punjab	1.47	–	–	–	1.47	–	1.29	–	–	–	1.2
Rajasthan	0.71	4.16	0.05	–	4.92	2.41	0.60	1.25	0.04	–	1.8
U.P.	1.96	4.72	0.64	0.39	7.71	2.95	1.46	1.57	0.32	0.33	3.6
West Bengal	8.30	7.61	1.42	4.26	21.59	–	10.16	0.74	0.65	3.67	15.2
Union Territories	1.21	2.00	–	–	3.21	–	1.49	1.25	–	–	2.7
Total	73.08	91.32	17.94	21.85	204.19	22.87	74.34	58.57	12.07	18.81	163.7

Note: Figures may not add up exactly to totals owing to slight differences caused by rounding.

(a) In the case of one Company, the assistance snactioned in 1965-66 and 1966-67 was for its units in Rajasthan and Maharashtra also.

(b) In the case of two companies, the assistance snanctioned in 1965-66 and 1966-67 was for expansion schemes of new and existing units in Maharashtra, Mysore, Madhya Pradesh, [illegible]ar.

Source: Industrial Development Bank.

STATEMENT II

Statewise Distribution of Financial Assistance sanctioned and disbursed by Industrial Finance Corporation upto 30th June, 1968.

(Rs. in crores)

	Financial assistance sanctioned			Financial assistance disbursed (Excluding foreign currency)			
	Public Limited Commanies	Cooperatives.	Total	Loans	Investments in shares/debentures (a)	Guarantees Issued	Total (4+5+6)
	1	2	3	4	5	6	7
Andhra Pradesh	18.54	4.35	22.89	9.61	1.55	9.26	20.42
Assam	6.89	0.60	7.49	2.02	3.44	-	5.46
Bihar	16.01	1.15	17.16	12.05	0.19	3.30	15.54
Gujarat	17.19	4.88	22.07	13.52	0.98	0.82	15.32
Haryana	6.94	1.96	8,90	4.32	0.24	0.11	4.67
Kerala	9.47	1.80	11.27	8.34	0.16	1.72	10.22
Madhya Pradesh	7.14	1.20	8.34	3.87	1.55	0.44	5.82
Madras	42.24	4.43	46.67	20.65	3.01	11.64	35.30
Maharashtra	39.97	22.33	62.30	36.76	4.10	3.76	44.62
Mysore	11.63	6.45	18.08	10.80	0.52	2.22	13.54
Orissa	6.34	1.16	7.50	4.84	0.69	-	5.53
Punjab	3.26	2.25	5.51	4.94	-	0.10	5.04
Rajastjan	15.48	1.20	16.68	5.41	0.14	7.57	13.12
U.P.	18.84	3.30	22.14	11.95	0.83	3.22	16.00
West Bengal	38.81	-	38.81	16.30	1.78	5.10	23.18
Union Territories	3.34	-	3.34	2.20	0.08	0.91	3.19
Total	262.09	57.06	319.15	167.58	19,26	50.13	236.97

(a) In pursuance of underwriting operations and direct subscription.

Source: Industrial Finance Corporation

STATEMENT III

Loans sanctioned and disbursed by State Financial Corporations during April 1960 - March 1968.

(Rs. in crores)

	Capital as at the end of March, 1968.	Outstanding of bonds issued as at the end of March, 1968;	Total assets as at the end of March, 1968.	Loans sanctioned (*)	Loans disbursed	Loans outstanding as at the end of March 1961	Loans outstanding as at the end of March 1968.
	1.	2.	3.	4.	5.	6.	7.
Andhra Pradesh	1.50	3.05	8.87	10.79	7.92	0.82	6.54
Assam	1.00	2.82	4.43	5.14	4.43	1.54	3.92
Bihar	1.00	1.50	3.39	4.09	2.84	1.49	2.83
Gujarat	1.00	2.17	6.01	9.13	5.58	0.19	3.89
Haryana	1.00	2.23	5.48	1.15	1.14	-	4.70 @
Jammu & Kashmir	0.77	0.24	1.14	1.99	1.51	0.02	1.04
Kerala	1.00	2.09	3.76	5.01	3.20	1.38	2.81
Madhya Pradesh	1.00	3.74	5.96	9.98	5.99	0.44	5.30
Madras	2.85	3.86	23.55	19.38	14.57	3.89	12.38
Maharashtra	1.50	7.22	13.68	22.35	16.43	1.99	12.41
Mysore	1.00	2.80	4.29	6.40	4.98	0.34	4.29
Nagaland	-	-	-	-	-	-	-
Orissa	1.00	1.85	2.65	3.81	3.10	0.18	2.65
Punjab	0.75	1.41	3.49	15.46	9.56	1.71	2.84
Rajasthan	1.00	2.25	4.27	6.35	4.44	0.54	3.70
U.P.	1.70	1.95	4.80	6.64	4.25	1.03	3.30
West Bengal	1.00	4.04	8.62	11.37	7.46	1.56	6.31
Union Territories	0.62	0.43	1.45	0.49	0.30	-	1.26 @
Total:	19.69	43.65	105.84	139.63	97.66	17.12	80.25

Note (*) Includes in respect of some Corporations, loans subsequently declined by Industrial concerns or cancelled or reduced by the Corporation.

(@) Including outstanding in respect of earlier loans disbursed by the erstwhile Punjab Financial Corporation and allocated to these corporations.

ource: Reserve Bank of Indi

STATEMENT IV

State-wise Distribution of Financial Assistance sanctioned by Agricultural Refinance Corporation upto 30th June, 1968.

(Rs. in crores)

	Schemes sanctioned		Expected drawals according to phasing		Actual drawals from ARC *
	Total Outlay	A.R.C.'s contribution	Total	From ARC	
	1	2	3	4	5
Andhra Pradesh	11.26	9.66	7.96	7.22	6.37
Assam	1.12	1.12	0.67	0.67	0.26
Bihar	14.26	11.90	2.63	2.23	--
Gujarat	7.99	7.00	1.54	1.25	0.14
Haryana	7.93	7.02	0.68	0.61	0.59
Jammu & Kashmir	0.75	0.56	0.40	0.30	0.11
Kerala	4.34	3.09	0.60	0.57	0.10
Madhya Pradesh	4.13	3.66	0.14	0.11	--
Madras	11.42	9.44	5.46	4.25	1.99
Maharashtra	10.12	8.90	3.84	3.31	1.08
Mysore	19.95	15.90	3.31	2.66	1.25
Nagaland	-	-	-	-	-
Orissa	0.32	0.29	0.32	0.29	--
Punjab	0.06	5.14	1.23	1.11	0.76
Rajasthan	0.32	0.24	0.13	0.10	-
U.P.	3.13	2.81	0.24	0.22	-
West Bengal	4.07	3.05	0.86	0.65	-
Union Territories	0.40	0.31	0.09	0.09	-
Total	107.57	90.59	30.10	25.64	12.65

* Loans drawn from/debentures subscribed to by A.R.C.

Source: Agricultural Refinance Corporation.

STATEMENT V

Statewise Distribution of Reserve Bank Credit to Cooperatives and Reserve Bank's Investments in Debentures of Central Land Mortgage Banks

(Rs. in crores)

State/ Tarritory	Year	LOANS SHORT-TERM Seasonal agricultural operations and marketing of crops: Total limit sanctioned	Highest drawal by the apex Bank	Outstanding at the end of the year.	Financing, production and marketing capacities of handloom weavers societies: Amount sanctioned	Amount drawn	Outstanding at the end of year
		(July - June)			(April - March)		
1	2	3	4	5	6	7	8
Andhra Pradesh	1963-64	21.00	16.49	21.46	1.46	1.23	1.23
	1967-68	20.97	12.28	21-09	1.64	1.25	1.17
Assam	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Bihar	1963-64	1.69	1.32	3.57	-	-	-
	1967-68	10.20	6.72	7.63	0.09	0.09	0.09
Gujarat	1963-64	20.19	14.56	26.42	0.06	-	-
	1967-68	36.45	24.62	41.48	-	-	-
Haryana	1963-64	-	-	-	-	-	-
	1967-68	7.63	5.74	9.19	-	-	-
J. & K	1963-64	0.44	0.37	1.27	-	-	-
	1967-68	-	-	-	-	-	-
Kerala	1963-64	4.23	3.34	6.59	0.41	0.40	
	1967-68	4.55	4.32	8.88	0.80	0.74	
Madhya Pradesh	1963-64	13.77	12.51	22.53	0.14	0.13	
	1967-68	26.42	16.20	26.41	0.13	0.13	
Madras	1963-64	29.80	26.39	33.77	2.77	2.66	2.66
	1967-68	34.50	18.52	26.59	3.86	5.32	2.46
Maharashtra	1963-64	37.05	24.73	58.79	0.33	0.09	0.09
	1967-68	73.90	42.92	61.17	0.94	0.74	0.57
Mysore	1963-64	12.66	9.26	15.87	0.17	0.17	0.17
	1967-68	15.79	12.98	24.87	0.22	0.21	0.21
Orissa	1963-64	3.51	2.80	4.34	0.17	0.15	0.14
	1967-68	8.24	5.21	10.25	0.21	0.19	0.19
Punjab	1963-64	8.48	8.32	16.88	0.04	-	-
	1967-68	25.49	17.67	21.47	0.02	0.02	0.02
Rajasthan	1963-64	5.64	4.49	7.55	0.05	0.02	0.02
	1967-68	7.92	4.71	7.82	-	-	-
Uttar Pradesh	1963-64	22.08	19.15	34.77	-	-	-
	1967-68	34.88	21.74	40.47	-	-	-
West Bengal	1963-64	4.52	4.52	4.51	-	-	-
	1967-68	7.96	6.09	9.02	0.03	0.03	0.03
Union Territories	1963-64	0.35	0.35	1.19	0.02	0.02	0.02
	1967-68	0.65	0.55	0.30	-	-	-
All India Total:	1963-64	186.16	148.61	259.23	5.61	4.88	4.87
	1967-68	314.15	200.23	264.05	7.93	8.71	5.61

(Rs. in crores)

State/ Territory	Year	LOANS SHORT-TERM For trading in yarn: Amount sanctioned	Amount drawn	Outstanding at the end of year	Purchase and distribution of fertilisers*: Amount sanctioned	Amount drawn	Outstanding at the end of year
		(April-March)			(As on 30th June)		
Andhra Pradesh	1963-64	0.20	0.55	0.19	-	-	-
	1967-68	0.25	-	-	5.00	-	-
Assam	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Bihar	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Gujarat	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	5.00	10.63	0.01
Haryana	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	2.00	0.71	0.40
J & K	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Kerala	1963-64	-	-	-	-	-	-
	1967-68	0.20	0.01	-	-	-	-
Madhya Pradesh	1963-64	0.20	-	-	-	-	-
	1967-68	-	-	-	4.00	-	-
Madras	1963-64	0.60	2.36	0.60	-	-	-
	1967-68	0.60	1.48	-	-	-	-
Maharashtra	1963-64	0.03	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Mysore	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	3.00	-	-
Orissa	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Punjab	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Rajasthan	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	2.50	-	-
Uttar Pradesh	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	5.00	5.00	5.00
West Bengal	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	1.00	-	-
Union Territories	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
All India	1963-64	0.85	2.91	0.79	-	-	-
Total:	1967-68	1.05	1.49	-	27.50	16.34	

* 1967-68 refers to Calendar Year 1968 but figures are upto the end of June 1968.

Continued from previous page (Rs. in crores)

State/ Territory	Year	LOANS					
		MEDICUM - TERM					
		Agricultural purposes			Loans from NAC (Stabilisation Fund		
		Amount sanctioned (July-june)	Amount drawn (July-june)	Outstanding at the end of year	Amount sanctioned (July-June)	Amount drawn (July-June)	Outstanding at the end of year.
		15	16	17	18	19	20
Andhra Pradesh	1963-64	1.44	0-55	1.20	-	-	-
	1967-68	1.06	0.71	1.17	0.43	-	0.21
Assam	1963-64	-	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Bihar	1963-64	0.29	-	-	-	-	-
	1967-68	0.79	0.53	1.02	-	-	2.16
Gujarat	1963-64	0.54	0.31	0.67	-	-	-
	1967-68	1.26	0.76	0.91	-	..	-
Haryana	1963-64	..	-	-	-	-	-
	1967-68	1.04	0.73	1.37	-	-	-
J. & K	1963-64	0.05	-	0-02	-	-	-
	1967-68	-	..	0.07	-	-	..
Kerala	1963-64	0.73	0.52	0.76	-	-	-
	1967-68	0.64	0.49	0.99	..	-	-
Madhya Pradesh	1963-64	1.71	1.42	1.76	-	-	-
	1967-68	1.42	0.72	1.70	-	-	2.36
Madras	1963-64	2.41	1.69	3.70	-	-	-
	1967-68	2.27	1.40	1.39	-	-	-
Maharashtra	1963-64	1.83	[illegible]	0.61	-	-	-
	1967-68	1.68	0.45	0.01	-	-	-
Mysore	1963-64	0.69	0.03	0.57	-	-	-
	1967-68	0.72	0.40	0.62	-	-	0.27
Orissa	1963-64	0.75	0.39	0.69	..	-	-
	1967-68	0.66	0.26	0.31	-	-	0.08
Punjab	1963-64	0.99	0.89	1.14	..	-	-
	1967-68	1.99	1.25	2.66	-	-	-
Rajasthan	1963-64	0.45	0.20	0.25	-	-	-
	1967-68	0.73	0.44	0.99	-	-	0.44
Uttar Pradesh	1963-64	1.81	1.31	1.46	-	-	-
	1967-68	2.07	0.92	2.10	-	-	0.51
West Bengal	1963-64	0.26	0.01	0.05	-	-	-
	1967-68	0.27	0.07	0.13	-	-	-
Union Territories	1963-64	0.05	0.02	0.04	-	-	-
	1967-68	-	-	0.04	-	-	..
All India Total:	1963-64	14.01	7.45	12.92	-	-	-
	1967-68	16.57	9.12	16.47	0.54	0.11	6.14

Continued from previous page (Rs. in crores)

State/ Territory	Year	LOANS – LONG-TERM – Loans from NAC(LTO)F – Amount sanctioned (April - March)	Amount drawn (April - March)	Investments in debentures – Ordinary – Amt floated (July - June)	Amt cont by RBI	Rural deb- Amt floated	Amt cont- by CBI
		21	22	23	24	25	26
Andhra Pradesh	1963-64	0.11	0.11	2.50	0.43	0.20	0.02
	1967-68	0.06	0.06	8.50	0.14	-	-
Assam	1963-64	0.04	-	-	-	-	-
	1967-68	-	-	-	-	-	-
Bihar	1963-64	0.01	0.01	-	-	-	-
	1967-68	0.48	0.48	1.55	-	-	-
Gujarat	1963-64	0.10	0.10	3.00	0.56	[illegible]	0.24
	1967-68	0.12	0.12	11.00	0.90	-	-
Haryana	1963-64	-	-	-	-	-	-
	1967-68	0.54	0.54	0.95	0.10	0.05	0.03
J & K	1963-64	-	-	-	-	-	-
	1967-68	0.07	-	0.08	-	-	-
Kerala	1963-64	0.24	0.24	0.75	0.13	-	-
	1967-68	0.10	0.10	0.70	0.02	-	-
Madhya Pradesh	1963-64	0.28	0.28	0.60	0.06	-	-
	1967-68	0.86	0.86	2.80	0.05	-	-
Madras	1963-64	0.47	0.47	3.50	0.55	0.15	0.36
	1967-68	0.14	0.14	5.00	0.33	-	-
Maharashtra	1963-64	0.79	0.79	9.63	1.77	0.82	0.44
	1967-68	0.31	0.31	10.00	0.69	-	-
Mysore	1963-64	0.24	0.23	1.50	0.80	0.08	0.04
	1967-68	0.17	0.17	6.25	0.58	-	-
		(0.03	(0.03)				
Orissa	1963-64	0.13	0.11	0.45	0.09	-	-
	1967-68	0.34	0.34	1.40	0.10	-	-
Punjab	1963-64	0.24	0.24	0.60	0.11	0.10	0.05
	1967-68	3.66	3.66	2.80	0.15	0.20	0.11
Rajasthan	1963-64	0.18	0.18	-	-	-	-
	1967-68	0.17	0.17	0.78	-	-	-
Uttar Pradesh	1963-64	0.32	0.32	0.45	-	-	-
	1967-68	0.25	0.25	10.94	0.61	0.20	0.10
West Bengal	1963-64	0.19	0.19	0.26	0.07	-	-
	1967-68	0.06	0.06	0.65	0.10	-	-
Union Territories	1963-64	-	-	-	-	-	-
	1967-68	-	-	0.23	0.03	-	-
All India Total	1963-64	3.35	3.28	23.34	4.06	1.84	0.85
	1967-68	7.37	7.29	63.63	3.78	0.45	0.23

Notes: Figures may not add up exactly to totals owing to slight differences caused by rounding. Figures within brackets indicate renewals and drawals against them.

NAC (Stablisation) Fund refers to National Agriculural Credit. (Stabilisation) Fund.

N.A.C.(LTO) Fund refers to National Agricultural Credit (long term operations) Funds

Source: Reserve Bank of India.

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)

March 3&4, 1972.

"GRANTS-IN-AID TO STATES"

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI.

GRANTS-IN-AID TO STATES

Grants-in-aid to States may be broadly classified under two headings, viz., grants for Plan and grants for Non-Plan purposes.

2. Grants for Plan purposes - whether for State Plan or Central Plan Schemes - are dtermined on the basis of certain criteria with reference to the approved Plan Outlay of the respective States.

3. Grants for Non-Plan purposes may be categorised into two broad types - statutory grants and other grants. Their nature and scope are indicated below:-

1. Statutory grants - These grants, made under the Substantive provision of Article 275 (1), are determined on the recommendation of the Finance Commission and are intended to cover their normal needs of a Revenue type, other than for the implementation of the Plan e.g. administrative expenses, interest charges, maintenance expenditure etc. From 1966-67 the total grants-in-aid payable to the State Governments, based on the recommendation of the Fourth Finance Commission, amount to Rs. 140.61 crores each year.

In addition, an annual grant of Rs. 40 lakhs is paid to Assam in pursuance of clause (a) of the Second provison to Article 275(1) of the Constitution.

II. Other grants - Normally the Statutory grants referred to in I above are expected to cover completely the requirements for the Non-Plan Revenue expenditure of the States. However, sometimes grants, over and above the Statutory grants, are made partly because the Finance Commission assumed their continuance and partly on account of special needs, mostly of an extraordinary or residual type. Such grants which are at present in payment are indicated below:

(a) Grants in lieu of Tax on Railway fares and for construction of Railway Safety Works - The grants in lieu of the Tax on Railway fares are intended to compensate the States for the loss of revenue as a result of the merger of the tax with the fares. The amount of the grant (which is made available to the General Revenues by the Railways) is determined by the Railway Convention Committee of Parliament and its distribution among the States as as recommended by the Finance Commission. The grant was fixed at Rs.12.50 crores by the Railway Convention Committee 1960 and increased to Rs.16.25 crores by the Railway Convention Committee, 1965 on the basis of the anticipated increase in traffic. Apart from this, a sum of Rs.1.75 crores approximately is made available by the Railways for distribution among the States for construction of Railway Safety Works - the pattern of distribution being the same as for grants in lieu of tax on Railway passenger fares.

(b) Grants from the Central Road Fund - These grants arise out of a Parliament Resolution according to which a portion of the excise duty (and import duty) on motor spirit is earmarked for providing assistance to States for the purpose of road development. The shares of the States are proportionate to the quantity of motor spirit consumed on road transport in the respective States.

(c) Assistance towards relief necessitated by natural calamities

This assistance is towards expenditure incurred by the States on relief measures necessitated by natural calamities, like floods, drought, cyclone, earthquake, etc. Such assistance now covers 75% (50% in the form of grant-in-aid and 25% as loan) of the approved expenditure (i.e.expenditure on specified items and within limits approved on the recommendation of a central temm of officers made after visiting the State), in excess of the amounts taken into account by the Fourth Finance Commission for such relief measures in their scheme of devolution. Pending verification etc. of the expenditure incurred by the State Government, loans are given so that the States may not have to face ways & means difficulties.

(d) Grants for Border Roads - These roads are required mainly for Defence purposes and, consequently, the entire expenditure both for construction as well as on maintenance is met by the Central Government. Naturally, this item relates

only to such of the States as have a border with other countries.

(e) <u>Assistance towards Police expenditure</u> - This relates mainly to assistance to States for maintaining Border Security Forces. After the assumption of the responsibility for border security by the Central Government, the amount of grants-in-aid for Police is decreasing. The payments now made are mainly towards arrears due to such of the States as have a border or other speical problems.

The expenditure which a State Government may incur in borrowing, at the instance of the Central Government, additional Police Battalions from other States in order to strengthen its own Police force, if so needed in special situations, is also reimbursed to the States. With further strengthening of the Central Reserve Police and the Border Security Force, the quantum of such reimbursements would be on the decline.

50% of the expenditure incurred by a State in respect of Home Guards raised after 20th October, 1962, so as to reach the target of 591 lakhs is also reimbursed to the States.

For Police Housing Schemes, loans are provided to all States.

(f) <u>Assistance for Educational Schemes</u> - These include-

(i) The Scheme for the improvement of salary scales of

teachers in Universities and affiliated Colleges (whether run by State Governments or private bodies), as recommended by the University Grants Commission, with effect from 1st April, 1966. The Central assisance which is payable for five years ending 31st March, 1971, amounts to 80% of the additional expenditure involved as a result of the revision;

(ii) The National Scholarships Scheme for which Grants-in-aid are paid, and the National Loan Scholarships Scheme;

(iii) the Scheme of Merit Scholarships to the children of primary and secondary schools teachers;

(iv) the Scheme for the grant of Scholarships and other educational facilities to the children of political sufferers; and

(v) a number of other educational Schemes.

(g) Bonus for foodgrains procurement - This is a new Scheme, introduced from the crop year 1966-67 to provide encouragement to such of the States surplus in foodgrains as are able to procure indigenous foodgrains (mainly, rice, but now also includes wheat and a few other grains), for export to the deficit States, in excess of the minimum targets laid down for each. In 1966-67 only 3 of the States could exceed their respective export targets and payments of the bonus, made in 1967-68, amounted to Rs.88 lakhs, comprising Rs.39 lakhs to Orissa. In respect of 1967-68, the bonus could be paid during the year to Punjab (Rs.70 lakhs) and Haryana (Rs.101 lakhs) only. The recipient States are required to earmark the bonus earned for utilisation on Schemes aimed at increased agricultural production.

(h) Grants for Craftsmen training and <u>Manpower &Employment Schemes</u> - These are intended to cover 60% of the Non-Plan expenditure incurred by the State Governments on the Craftsmen training etc. Schemes instituted upto the end of the Second Plan. The payment of these grants has been necessitated by the fact that the last Finance Commission assumed the continuance of these grants on the then existing basis.

(i) Assistance for Relief and Rehabilitation <u>of Displaced Persons</u>

Grants are paid for Relief measures only - the payments being mainly in respect of new migrants from East Pakistan and also in respect of the repatriates from Burma, Ceylon and Mozambique.

(j) Assistance for Relief measures following <u>hostilities with Pakistan</u>

The assistance in this case is given in respect of the persons uprooted in the border areas of Jammu &Kashmir, Punjab and Rajasthan as a result of the Indo-Pak hostilities in August-September, 1965.

(k) <u>Assistance for Development of Border Areas</u>

This is in respect of areas bordering the Tibet in the States of Uttar Pradesh and Jammu & Kashmir. With a view to securing more intensive and acclerated development of these areas, certain special steps relating to the administration

and development of these areas were initiated in 1960-61, special assistance being provided to the State Governments on this account. While the Development Schemes relating to these areas form part of the respective State Plans, Non-Plan grants continue to be paid on account of the committed expenditure in respect of the earlier Plan Schemes.

(l) Assistance for Rehabilitation of goldsmiths

Grants are made to the States for providing educational and technical training facilities to golds miths and their children, displaced as a result of the Gold Control Order. In addition, loans are given for the rehabilitation of goldsmiths in other vocations.

(m) Miscellaneous - This comprises a number of small items like grants-in-aid towards expenditure on Social Welfare Homes, Infirmaries & doles, staff and publicity relating to Small Savings Scheme, award of Community prizes for agricultural production, National Sample Survey, maintenance of T.B. and mental patients among displaced persons from East Pakistan etc.

4. A Statement showing the Non-Plan grants-in-aid and loans to the State Governments as provided for in the Revised Estimates for 1967-68 and Budget Estimates for 1968-69 is enclosed. The Statement does not include certain special items paid in satisfaction of earlier commitments like

grants in lieu of reduction in the share of Income Tax as a result of changes in Company taxation relating to 1960-62 (distributed in the same proportion as Income Tax share), Scheme for raising the emoluments of low paid employees during the Second Plan period, etc., as also the re-imbursements made to the States for borrowing, at the instance of the Centre, Police battalions from other States and for raising Home Guards.

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STATEMENT

Non-Plan grants-in-aid and loan to state Governments

(in crores of Rupees)

	Revised 1967 - 68		Budget 1968 - 69	
	Grants	Loans	Grants	Loans
1. Statutory grants under Article 275(i) of the Constitution -				
(i) Under the substantive provision	140.61	..	140.61	..
(ii) Under clause (a) of Second proviso	0.40	--	0.40	..
II. Other grants and loans				
(a) out of transfers by Railways to general Revenues.				
(i) In lieu of tax on Railway fares.	16.16	..	16.16	..
(ii) Railways safety works.	1.00	..	3.60	..
(b) Central Road Fund	3.44	..	3.94	..
(c) Assistance towards relief necessitated by natural calamities	24.00	60.00	12.00	20.00
(d) Border Roads.				
(i) Construction	15.21	--	16.49	..
(ii) Maintenance	2.21	..	2.57	..
(e) Police including Police Housing Schemes.	7.01	3.00	3.96	3.00
(f) Educational Schemes	5.96	2.56	4.83	2.21
(g) Bonues for foodgrains procurement	2.61	--	4.50	--
(h) Craftsmen training & Manpower & Employment Schemes.	2.71	..	3.00	..
(i) Relief & Rehabilitation of Displaced Persons	5.09	0.09	4.30	0.08
Relief measures follow ing hostilities with				

are of small Savings Collections.

Background paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES
(with special reference to Industries)
March 3&4, 1972.

"INVESTMENT OF CENTRAL PROJECTS IN THE DIFFERENT STATES"

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI

INVESTMENT OF CENTRAL PROJECTS IN THE DIFFERENT STATES.

Statements are enclosed indicating the Central investment in the States on industrial projects, major ports and Central power generation schemes during the Plan period covering 1951-68. Similar information for other sectors like railways, roads, education, health etc. is not given, as it is difficult to work out the break-up of such investment on a Statewise basis.

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STATEMENT INVESTMENT OF CENTRAL INDUSTRIAL PROJECTS

State	Investment in 1st Plan	Investment in 2nd Plan	Investment in 3rd Plan	Total investment during the three plan periods.	Estimated investment in 1966-68	Total investment during 1951-68	Balance investment to be made for completing the project.
1.	2.	3.	4.	5.	6.	7.	8.
Andhra Pradesh	8.3	1.7	52.5	62.5	24.8	87.3	36.1
Assam	-	-	32.8	32.8	7.4	40.2	31.0
Bihar	8.2	21.2	184.7	214.1	142.4	356.5	739.2
Gujarat	-	-	45.0	45.0	3.0	48.0	111.5
J. & K.				NIL			
Kerala	1.0	0.9	49.2	51.1	17.2	68.3	67.0
Maharashtra	2.0	1.7	43.6	47.3	2.6	49.9	139.6
Madhya Pradesh	-	221.8	192.6	414.4	44.7	459.1	153.0
Madras	5.8	33.4	141.4	180.6	65.2	245.8	53.5
Mysore	7.1	3.3	17.2	27.6	20.8	48.4	8.7
Orissa	6.5	199.3	154.7	360.5	57.6	418.1	8.0
Punjab	-	28.0	4.2	32.2	-	32.2	-
Haryana	-	-	7.0	7.0	1.6	8.6	-
Rajasthan	-	-	12.2	12.2	18.3	30.5	35.9

-/-

(Rs. crores)

1.	2.	3.	4.	5.	6.	7.	8.
Uttar Pradesh	-	-	72.1	72.1	75.8	147.9	19.3
West Bengal	5.9	182.9	135.0	323.8	84.4	408.2	47.3
Delhi	0.5	-	-	0.5	0.3	0.8	0.7
Total:	45.3	694.2	1144.2	1883.7	566.0	2449.7	1500.8

NOTE: These are approximate estimates of fixed investment in Central Industrial Projects in different states.

STATEWISE LOCATION AND INVESTMENT ON CENTRAL INDUSTRIAL PROJECTS.

(Rs. crores)

State	Name of the Project	Location	Investment in 1st Plan	Investment in 2nd Plan	Investment in 3rd Plan	Total investment during the three Plan periods.	Estimated investment in 1966-68	Total estimated investment in 1951-68	Balance investment to be made for completing the Project.
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Andhra Pradesh	Hindustan Shipyard (including expansion subsidy and Dry Dock)	Vishakapatnam	8.3	1.7	5.6	15.6	4.7	20.3	13.5
	Praga Tools Ltd.	Secunderabad	tt	tt	1.9	1.9	-	1.9	-
	Machine Tools Factory	Hyderabad	-	-	7.6	7.6	1.5	9.1	-
	B.H.E.L.H.T Switchgear Project.	Ramachandrapuram	-	-	0-4	0.4	1.6	2.0	0.5
	B.H.E.L. Heavy Power Equipment Plant (including expansion)	-do-	-	-	24.0	24.0	8.0	32.0	5.0
	Synthetic Drugs Plant	Sanatnagar	-	-	13.0	13.0	7.1	20.1	-
	Heavy Plate and Vessel Project	Vishakapatnam	-	-	-	-	1.9	1.9	17.1
	Total:		8.3	1.7	52.5	62.5	24.8	87.3	36.1

-/-

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Assam	Nunmati Refinery	Nunmati	-	-	17.7	17.7	-	17.7	-
	Namrup Fertilisers	Namrup	-	-	15.1	15.1	7.4	22.5	1.5
	Namrup Fertilisers II	Namrup	-	-	-	-	-	-	20.5
		Total:	-	-	32.8	32.8	7.4	40.2	31.0
Bihar	Sindri Fertiliser	Sindri	8.2	13.2	-	21.4	-	21.4	-
	Sindri Rationalisation	Sindri	-	-	-	-	-	-	23.0
	Baruni Refiner	Barauni	-	-	47.0	47.0	2.0	49.0	-
	Heavy Machine Tools Plant Heavy Machine Building Plant Foundry Forge Plant.	Ranchi	-	8.0	120.0	128.0	60.0	188.0	28.0
	Pyrites and Chemical Development Corporation	Sindri	-	-	1.2	1.2.	4.9	6.1	4.3
	Bokaro Steel Plant	Bokaro	-	-	16.5	16.5	75.0	91.5	578.5
	Rakha Copper Project	Rakha	-	-	Neg.	Neg.	0.5	0.5	67.0 @
	Barauni Fertiliser	Barauni	-	-	-	-	-	-	38.4
		Total:	8.2	21.2	184.7	214.1	142.4	356.5	739.2
Gujarat	Koyali Refinery	Koyali	-	-	45.0	45.0	2.5	47.5	-
	Gujarat Aromatics	Koyali	-	-	-	-	0-5	0.5	21.5
	Kandla Fertiser	Kandla	-	-	-	-	-	-	90.0
		Total	-	-	45.0	45.0	3.0	48.0	111.5

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Jammu & Kashmir						N I L			
Kerala	D.D.T. Factory (including expansion)	Alwaye	-	0.9	0.1	1.0	0.1	1.1	0.7
	Rare Earth Factory	Alwaye	1.0	-	-	1.0	-	1.0	-
	Fact (Third stage expansion)	Alwaye	tt	tt	11.0	11.0	-	11.0	-
	FACT (Fouth stage expansion)	Alwaye	-	-	-	-	2.2	2.2	2.8
	Machine Tools Factory	Kalamassary	-	-	7.0	7.0	1.5	8.5	-
	Cochin Refinery	Cochin	-	-	30.0	30.0	2.0	32.0	-
	Cochin Shipyard	Cochin	-	-	0.6	0.6	0.4	1.0	35.0
	Cochin Fertilizers	Cochin	-	-	0.5	0.5	11.0	11.5	23.5
		Total:	1.0	0.9	49.2	51.1	17.2	68.3	67.0
Maharashtra	Hindustan Antibiotics (including expansion)	Pimpri	2.0	1.7	2.8	6.5	0.5	7.0	1.0
	Trombay Fertilisers	Trombay	-	-	38.7	38.7	-	38.7	-
	Expansion of Trombay Fertilizer.	Trombay	-	-	-	-	-	-	51.0
	Organic Intermediates Plant	Panvel	-	-	2.0	2.0	1.7	3.7	14.6
	Koyna Aluminium	Koyna	-	-	0.1	0.1	0.4	0.5	73.0
		Total:	2.0	1.7	43.6	47.3	2.6	49.9	139.6

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Madhya Pradesh	(Im. tonnes) Bhilai Steel Plant	Bhilai	-	191.8	10.5	202.3	-	202.3	-
	Expansion of Bhalai Steel Plant (including Bhilai 6th Blast Furnace)	Bhilai	-	-	141.0	141.0	27.0	168.0	25.0
	Heavy Electrical Plant (including expansion)	Bhopal	-	24.4	33.6	58.0	7.0	65.0	13.0
	Nepa Paper Mills (inclu -ding expansion)	Nepanagar	-	5.6	1.4	7.0	3.1	10.1	3.0
	Security Paper Mills	Hoshangabad	-	-	5.9	5.9	3.7	9.6	0.5
	Korba Aluminim	Korba	-	-	0.2	0.2	1.5	1.7	104.3
	New Alkaloid Factory	Neemuch	-	-	-	-	0.4	0.4	0.2
	Mandhar Cement Factory (of Cement Corporation of India.)	Mandhar	-	-	-	-	2.0	2.0	2.0
		Totsl:	-	221.8	192.6	414.4	44.7	459.1	153.0

-/-

1.	2.	3.	4.	5.	6.	7.	8.	9.	10
Madras	Integral Coach Factory	Perambur	5.8	3.3	**	9.1	-	9.1	-
	Teleprinter Factory	Madras	-	0.1	**	0.1	**	0.1	-
	Neiveli Lignive Corporation Ltd.	Neiveli	-	30.0	109.0	139.0	22.0(I)	161.0	-
	Surgical Instrument Factory	Guindy	-	-	4.2	4.2	0.4	4.6	-
	B.H.E.L. High Pressure Boiler Plant (including expansion)	Tiruchi	-	-	19.9	19.9	4.0	23.9	-
	Raw Film Project	Ooty	-	-	7.8	7.8	3.3	11.1	0.5
	Madras Fertiliser	Madras	-	-	-	-	7.0	7.0	48.0
	Madras Refinery	Madras	-	-	0.5	0.5	28.5	29.0	5.0
		Total:	5.8	33.4	141.4	180.6	65.2	245.8	53.5

-/-

Tv/

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Mysore	Hindustan Machine Tool (including watch Factory)	Bangalore	4.2	1.8	4.1	10.1	3.5	13.6	-
	Indian Telephone Industry	Bangalore	2.9	1.5	3.6	8.0	**	8.0	-
	Mysore Iron & Steel Works (conversion to Alloy Steel)	Bhadravati	-	-	9.5	9.5	15.3	24.8	6.7
	Kurkunta Cement Project (of Cement Corporation of India.)	Kurkunta	-	-	-	-	2.0	2.0	2.0
		Total:	7.1	3.3	17.2	27.6	20.8	48.4	8.7
Orissa	Rourkela Steel Plant	Rourkela	6.5	193.8	19.8	220.1	12.0	232.1	-
	1st stage expansion of Rourkela steel Plant	Rourkela	-	-	119.9	119.9	42.6	162.5	8.0
	Rourkela Fertiliser Plant (including Naptha Steam informing Unit.)	Rourkela	-	5.5	15.0	20.5	3.0	23.5	-
		Total:	6.5	199.3	154.7	360.5	57.6	418.1	8.0
Punjab	Nangal Fertilisers	Nangal	-	28.0	4.2	32.2	-	32.2	-
		Total:	-	28.0	4.2	32.2	-	32.2	-
Haryana	Machine Tools Plant	Pinjore	-	-	7.0	7.0	1.5	8.5	-
		Total:	-	-	7.0	7.0	1.5	8.5	-

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
Rajasthan	Zinc Smelter	Udaipur	-	-	5.3	5.3	6.7	12.0	2.5
	Khetri Copper Project	Khetri	-	-	4.3	4.3	6.6	10.9	75.0
	Precision Instrument Factory	Kotah	-	-	2.6	2.6	3.8	6.4	1.4
	Machine Tools Plant	Ajmer	-	-	-	-	1.2	1.2	7.0
		Total:	-	-	12.2	12.2	18.3	30.5	85.9
Uttar Pradesh	Diesel Loco Factory	Varanasi	-	-	=7.0	17.0	2.8	19.8	**
	Antibiotics Factory	Rishikesh	-	-	15.1	15.1	6.9	22.0	-
	B.H.E.L. Heavy Electrical Equipment Plant.	Hardwar	-	-	20.6	20.6	50.0	70.6	16.0
	Gorakhpur Fertilisers	Gorakhpur	-	-	19.4	19.4	13.6	33.0	-
	Triveni Structural Ltd.	Allahabad	-	-	-	-	2.5	2.5	3.3
		Total:	-	-	72.1	72.4	75.8	147.9	19.3

-/-

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
West Bengal	Durgapur Steel Plant	Durgapur	-	178.7	18.0	196.7	1.9	198.6	-
	1st Stage expansion of Durgapur steel Plant	Durgapur	-	-	50.0	50.0	19.7	69.7	8.0
	National Instruments (including Opthalmic glass Project)	Calcutta	1.0	0.4	1.8	3.2	2.7	5.9	1.0
	Chittranjan Locomotives	Chittranjan	3.6	1.8	**	5.4	-	5.4	**
	Hindustan Cables (including Expansion)	Rupnarainpur	1.3	0.8	3.3	5.4	1.9	7.3	8.0
	Mining and Allied Machinery Project	Durgapur	-	1.2	28.0	29.2	15.8	45.0	-
	Alloy Steel Plant	Durgapur	-	-	33.3	33.3	33.3	66.6	2.0
	Durgapur Fertilisers	Durgapur	-	-	0.6	0.6	9.1	9.7	28.3
		Total:	5.9	182.9	135.0	323.8	84.4	408.2	47.3
Delhi	D.D.T. Factory @	Delhi	0.5	-	-	0.5	-	0.5	-
	Expansion of D.D.T. Factory	Delhi	-	-	-	-	0.3	0.3	0.7
		Total:	0.5	-	-	0.5	0.3	0.8	0.7

NOTE:
@ Decision on this project is yet to be taken.
* These are approximate estimates of fixed investment on Central projects in different states.
** Transforred to Transport Sector.
tt These projects were earlier in the private/state sector; hence investment on these project has not been shown for this period.
(I) Excluding investment on power unit.

Statewise Investment * on major ports

(Rs. crores)

State	Port	First Plan	Second Plan	Third Plan	1966-68 (Estimated)	Total 1951-68	Additional investment for completion of projects already taken up/ sanctioned
1	2	3	4	5	6	7	8
West Bengal	Calcutta including Haldia	3.49	7.50	26.67	20.17	57.83	52.54
Maharashtra	Bombay	10.92	1.39	12.94	13.72	38.97	35.36
Madras	1) Madras	1.35	2.63	9.19	7.51	20.68	23.66
	2) Tutieorin	-	-	5.07	2.93	8.00	21.05
Kerala	Cochin	0.59	1.77	1.88	2.34	6.58	5.34
Andhra Pradesh							
	1) Vishakhapatnam	1.13	4.32	9.07	4.90	19.42	17.21
	2) Investigation for second outlet for export of iron ore from Bailadilla	--	--	--	0.15	0.15	0.25
Gujarat	Kandla	8.84	8.24	3.71	0.89	21.68	11.66
Goa	Mormugao	--	--	1.75	0.60	2.35	2.20
Orissa	Paradeep	--	--	5.20	4.74	9.94	3.50
Mysore	Mangalore	-	--	3.02	2.50	5.52	16.55
	Total:	26.32	25.85	78.50	60.45	191.12	189.32

* Including Port's own resources.

INVESTMENT ON CENTRAL POWER GENERATION SCHEMES

(in crores of ru[illegible])

e	Est. cost	Outlay during I Plan	Outlay during II Plan	Outlay during III Plan	Outlay in 1966-67 actual	Outlay in 1967-68 anticipated.	Outlay in 1968-69 Budget	Balance.
eli Thermal Station								
e I	25.20	-	11.40	13.93	(-) 9.10	-	-	
e II	19.74	-	-	16.50	2.75	0.95	(-) 0.44	
e III	32.85	-	-	1.40	9.09	16.12	5.10	1.14
Total:		-	11.40	31.83	11.72	17.07	4.66	1.14
ic Power Station								
Tarapur	82.69	-	-	25.89	36.19	13.17	4.50	2.94
Rajasthan	110.66	-	-	4.31	12.27	17.70	17.50	58.88
Kalpakkam	104.00	-	-	0.08	0.23	0.94	4.00	98.75
Preliminary on new Projects.		-	-	-	0.27	0.17	0.14	
Total:		-	-	30.28	48.96	31.98	26.14	160.57
arpur Thermal ation	39.95*	-	-	-	0.29	2.48	4.49	32.69**
V.C. Power ogramme @		-	33.12	41.20	54.40	10.43	5.74	6.55
Total:			33.12	52.60	116.61	71.40	57.27	41.84

* is likely to be revised to about Rs.60.0 crores.

** is likely to be near about Rs.52.0 crores.

@ total outlay including shares of Centre, Bihar and West Bengal. [illegible]ntre's share is one third.

Discussion Paper

SEMINAR ON
"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3&4, 1972.

"PROBLEMS, APPROACH AND POLICY ISSUES CONCERNING REGIONAL IMBALANCES"

by
Anand Sarup

Conference Hall
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
Indraprastha Estate
New Delhi.

INVESTMENT ON CENTRAL POWER GENERATION SCHEMES

(in crores of rupees)

Scheme	Est. cost	Outlay during I Plan	Outlay during II Plan	Outlay during III Plan	Outlay in 1966-67 actual	Outlay in 1967-68 anticipated.	Outlay in 1968-69 Budget	Balance.
Neyveli Thermal Station								
Stage I	25.20	-	11.40	13.93	(-) 0.10	-	-	
Stage II	19.74	-	-	16.50	2.75	0.95	(-) 0.44	
Stage III	32.85	-	-	1.40	9.09	16.12	5.10	1.14
Total:		-	11.40	31.83	11.72	17.07	4.66	1.14
Atomic Power Station								
(i) Tarapur	82.69	-	-	25.89	36.19	13.17	4.50	2.94
(ii) Rajasthan	110.66	-	-	4.31	12.27	17.70	17.50	58.88
(iii) Kalpakkam	104.00	-	-	0.08	0.23	0.94	4.00	98.75
(iv) Preliminary on new Projects.		-	-	-	0.27	0.17	0.14	
Total:		-	-	30.28	48.96	31.98	26.14	160.57
Badarpur Thermal Station	39.95*	-	-	-	0.29	2.48	4.49	32.69**
D.V.C. Power Programme @	-	33.12	41.20	54.40	10.43	5.74	6.55	
and Total:		33.12	52.60	116.61	71.40	57.27	41.84	

* is likely to be revised to about Rs.60.0 crores.

** is likely to be near about Rs.52.0 crores.

@ total outlay including shares of Centre, Bihar and West Bengal. Centre's share is one third.

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PROBLEMS, APPROACH AND POLICY ISSUES CONCERNING REGIONAL IMBALANCES*

The problem of regional imbalances has been engaging the attention of Indian economists and planners ever since planning was adopted as an instrument of national policy. To date several attempts have been made to identify the backward areas in the country and to diagnose the various causes which have resulted in disparate development between various States and regions. The main causes for regional disparities which have been repeatedly identified are :

(a) disparities in resource endowment particularly in terms of reliable and adequate rainfall, availability of surface water and groundwater and hydro-electric resources, quality and condition of soils and occurrence of mineral resources;

(b) occurrence of very high or very low density of population resulting in excessive parcelization or under-utilization of land resources;

(c) level of infrastructural development particularly in respect of communications and transport and marketing and servicing facilities;

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* Anand Sarup

Note: The views expressed in this paper are not necessarily the views of the Planning Commission.

(d) variations in public and private investments on resource development and industrialization resulting in different regions, in inter-sectoral imbalances, low level of diversification and inadequate employment opportunities;

(e) development and coverage of social infrastructure;

(f) locational advantages or disadvantages with references to the pattern of national and international trade;

(g) cultural, institutional and historical factors favouring or retarding capital formation, mobility and modernization;

(h) structure of political power within States with different identifiable socio-cultural groups or spatial regions.

2. For the identification of backward areas, the most favoured indicators are those of per capita income and per capita consumer expenditure. However, in the absence of reliable macro-economic statistics, some of the indicators used inter-alia have been:

(i) nature of space relations between one area and another in terms of flow of commodities, services, capital, manpower etc,;

(ii) per capita availability of arable land;

(iii) percentage of agricultural area irrigated;

(iv) area under multi-cropping and productivity per hectare.

(v) length of roads per 100 sq.Kms. or per lac of population;

(vi) per capita generation and consumption of electricity and extension of rural electrification;

(vii) in and out-migration;

(viii) participation rates for men and women and vocational distribution of workers;

(ix) percentage of literates and per cent of school-going children against the number of children of school-going age; and

(x) availability of hospital beds/doctors per lac population.

3. Some of the contributory factors identified in relation to regional imbalances are :

(a) distribution of the country into administrative units (i.e. States and districts) which have no basis either in terms of homogeniety or availability;

(b) relative level of development of various local institutions, particularly cooperatives;

(c) relative efficiency of the administrative structure;

(d) absence of a spatial dimension in planning at the national and State level;

(e) disparate flow of institutional resources and bank finances to various areas; and

(f) paucity of area oriented research and pilot experimentation in relation to specific problems of technology, potential, development, organization and institutional structure; and

(g) misconceived emphasis upon thelocation of large scale industrial units for the development of areas.

So far as public investment in relation to the problem of regional imbalances is concerned, the fact remains that :

(1) it has so far not been possible to devise a basis which would ensure adequate allocation of resources to backward areas without jeopardising a minimum growth rate essential for the country as a whole;

(2) the structure of financial relationships between the centre and the States presents difficulties in the matching of investment resources with the occurrence of potentials;

(3) Composite locational policies capable of objective interpretation and quantative analysis in respect of State and Central enterprises, which would take into consideration both the cost benefit ratio as well as the accrual of social benefits from the development of backward regions, have not been formulated;

4. There are a number of administrative difficulties also which have adversely affected the attempts made so far to reduce regional imbalances. Some of these are listed below:

(a) Plan formulation has so far been confined almost entirely to the drawing up of programmes and schemes only in sectoral terms at the State level;

(b) a satisfactory arrangement which would ensure resource allocation as well as joint implementation and sharing of benefits has not been devdoped between States;

(c) No criteria have been developed for the allocation of resources between different regions within the States;

(d) Most of the States or regions which are suffering from relative backwardness are unable to provide adequate administrative inputs for proper planning and programme implementation;

(e) Proposals for the redemarcation of districts/States on the basis of economic regionalization have so far not met with any positive response;

(f) while a great deal of work has been done for the identification of levels of development (or backwardness), the work of preparing resource inventories and determining the potentials of various regions has been generally neglected; and

(g) it has not been possible so far to develop an organizational structure for promoting rapid development of small scale industries.

So far as the approach to the problems of Regional Imbalances is concerned, the following ideas are already well accepted:

(i) that positive intervention by the Central and State Governments in terms of additional resource allocation, creation of special incentives and augmentation of infrastructure and social services is necessary to tackle this problem;

(ii) that the problem of regional imbalances cannot be tackled unless it is treated first and foremost as a problem of planning;

(iii) that without evolving spatial strategies at the national and State levels, there can be no progress towards the reduction of regional imbalances;

(iv) that the idea of equalising the level of development in all regions is impracticable at least in the short run and therefore, it would be more practical to concentrate on accelerating development within the overall perimetres of the availability of natural resources; manpower, infrastructural facilities and locational advantages or disadvantages;

(v) that the process of decision-making has to be deconcentrated to evolve integrated strategies and programmes for various regions which would facilitate the best possible utilization of a region's potentials:

(vi) that essential social services will have to be provided to all areas at a reasonable level in order to ensure a minimum quality of life to all citizens, wherever, they may be residing;

(vii) that peppering of investment in an amorphous fashion all over the backward regions will not be as effective as the identification of growth areas and growth centres and the concentration of efforts on these points;

(viii) that inter-State as well intra State planning and development agencies will have to be set up to direct regional development; and

(ix) that methodological as well as technical research will have to be undertaken with special reference to the problems of different regions.

It will be appreciated that with the widespread acceptance of the above ideas, the main barriers to the removal of regional imbalances at the policy making levels have been removed. It has, however, to be recognized at the same time that five-year and annual plans will have to be adopted as the main instrument for reducing regional imbalances. We are now almost at the threshold of the 5th Five Year Plan. Work is already being initiated for its formulation. It is, therefore, imperative that some guidelines should be immediately provided by this Seminar on the following questions:

(a) What should be the basis for the allocation of resources between the States for their 5th Five Year Plan? Also, how should resources be allocated at the State level between various intra-State regions?

(b) What mechanism should be devised immediately to ensure the formulation of regional plans before 1973-74, at least for the 5th Plan period;

(c) What approach should be adopted for ensuring the joint exploitation of regional resources which require the cooperation of more than one State;

(d) What policy measures should be taken to ensure rapid expansion and diversification of employment in backward regions with poor endowment of basic raw materials, high density of population and excessive dependence on small scale agriculture?

(e) What should be the basis for the formulation of a spatial strategy at the national level for the Fifth Plan period;

(f) How should the objectives of a reasonable growth rate for the country as a whole as well as the accelerated development of backward regions be harmonized into an integrated policy;

(g) What steps should be taken immediately to provide an adequate informational base for spatial planning in the 5th and subsequent plans; and

(h) What locational policies should be followed in the Fifth Plan regarding the setting up of Central and State industrial enterprises.

Discussion Paper

SEMINAR ON

"REGIONAL IMBALANCES - THE PROBLEMS AND POLICIES"
(with special reference to Industries)
March 3 & 4, 1972.

REGIONAL IMBALANCES AS A CONSEQUENCE OF GREEN REVOLUTION - a case study of Haryana

by

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REGIONAL IMBALANCES AS A CONSEQUENCE OF GREEN REVOLUTION

- A Case Study of Haryana -

Haryana along with the Punjab has pioneered the adoption of new techniques of agriculture. It has registed a substantial break-through in agricultural production and incomes. One of the main consequences of the Green Revolution in Haryana has been a very rapid enlargement of agricultural incomes. Since agriculture accounts for sixty per cent of total State income in Haryana, this increment in agricultural income has led to a rapid rise in the total State income. As a result, Haryana has emerged as the second richest State in India in terms of per capita income. More important is the fact that Haryana has recorded a very high rate of growth in income since its inception in 1966 and is today one of the fastest growing States in India.

The fruits of the current prosperity have not been equally shared by all categories of farmers and by all regions in Haryana. It is notable that the various parts of the State have recorded varying rates of growth and there exist very wide regional income desparities in rural Haryana.

The purpose of this paper is to study more fully the nature and extent of income disparities in the various regions of Haryana and to investigate if the disparities have tended to get accentrated as a result of the Green Revolution. Some policy implications are also drawn from the Haryana experience to enable the policy makers to devise a correct strategy for regional planning.

The results in this paper are based on a sample survey of 723 cultivating households from 100 villages selected at random from all over Haryana during 1971.

For the purpose of regional analysis the data collected was regrouped into three regions - Northern, Central and Southern. On grounds of geographical contiguity, percentage of irrigated area and, to some extent, soil type, the three regions demarcated were as follows:

Northern region comprising Ambala, Jind and Karnal districts. Central region comprising Hissar district except Bhiwani and Loharu tehsils and Rohtak district except Jhajjar tehsil. Southern region comprising Gurgaon and Mahindergarh districts and Bhiwani, Loharu and Jhajjar tehsils[1].

REGIONAL INCOME DISPARITIES

Table I below gives a broad picture of the income and consumption of cultivators for various categories in these three regions.

It is clear from the table that the average incomes of all classes of cultivators in the Northern region are far higher than those in the rest of the State. Thus, the very small peasants cultivating upto 5 acres of land in this region have a mean household income of Rs. 2,603, compared with the average income of Rs. 2,089 in

1. This division into 3 regions is to some extent arbitrary but there are some significant differences among those regions. The northern region has nearly 67 per cent net irrigated area comparing that 21 per cent of the Southern region and 55 per cent of the Central region. Because of better irrigation facilities a much large per-centage of cultivators have taken to improved methods of agriculture, and have thus increased increased their income and output levels.

the South. The total consumption of Rs. 2,961 is higher than the Haryana average consumption for this category by about Rs. 85 per annum, and their deficit is lower by Rs. 380 per annum.

The second category of cultivators tilling between 5 to 10 acres of land derive a net household/income of Rs.5,298 in the Northern region. The household incomes of their counterparts in the Central and Southern regions are Rs. 3,071 and Rs. 3,935 respectively. This category of cultivators in the Northern region are able to record a savings of the order of Rs. 972 per household after meeting their consumption expenditure; this contrasts with negative savings of corresponding cultivators in the other regions. The position of higher categories of cultivators is similarly more favourable in the Northern region. Thus the middle peasants cultivating between 10 to 20 acres of land are able to record a net household income of Rs. 10,372 in North compared with Rs.5,003 in Centre and Rs. 5,272 in South. Their savings amount of Rs. 4,764-94 and -108 respectively Similarly the big peasants cultivating between 20 to 30 acres derive on an average a net household income of Rs. 16,054 in the North compared with Rs. 8,381 in the Centre and Rs. 8,297 in the South. The very big cultivators tilling more than 30 acres of land earn Rs. 22,553 in the Northern region, Rs. 140,99 in the Central region and Rs. 8,755 in the Southern region.

Taking cultivators of all categories together, the net household income amounts to Rs. 7811 in the North, Rs. 5,239 in the Centre and Rs. 4238 in the South. More notably, the savings

amount to Rs.2,830 in the North contrasted with negative savings of Rs. 122 in the Centre and Rs. 125 in the South. It is significant to note that the entire net savings in rural Haryana accrue from the cultivators in the Northern region only.

The increase in income has been achieved by a much greater use of material inputs by the cultivators in the North. They spend on an average Rs. 313 per acre on material inputs compared with Rs. 158 per acre in the Centre and Rs. 145 only in the South.

Moreover the cultivators in the North spend on an average Rs. 67 per acre on hired labour compared with Rs. 33 per acre in the Centre and Rs. 25 per acre only in the South. This indicates that relatively much greater employment is being generated in the North.

The result of greater material and labour inputs is that the cultivators in the North are able to record much higher output from their farms. The average output of cultivators is Rs. 1004 per acre in the North. In the central region cultivarors obtain an ouput per acre of Rs. 504 and in the Southern region the output is equal to only Rs. 463 per acre.

To sum up all categories of cultivators in the Northern region are doing much better than their counterparts in the Central and the Southern regions. They are able to record higher output per acre - they use more inputs and employ greater number of labour during a year.

Regional Income Distribution as a Result of Green Revolution

The basic results with regard to inter-regional and intra-regional disparities in income have been derived by us by comparing the progressive and jon-progressive cultivators in the three regions of Haryana. (We have defined a progressive cultivators as one who uses improved variety of seeds),

Table 2 below gives the income distribution among progressive and non progressive cultivators in the three regions of Haryana. It is clear from the table that the average income of progressive cultivators is significantly higher than the non-progressive cultivating household in all the three region. In the North, the progressive cultivators have a household income of Rs. 9187 compared with Rs. 4709 by the non-progressives. In the Central region progressive cultivators record an annual income of Rs. 6934 per household compared with an income of Rs. 4645 by the non progressives. The respective figures in the Southern region are Rs. 5865 and Rs. 4238 per annum respectively.

The material & hired labour inputs used are for greater for the progressive as compared with the non-progressive cultivators in all the regions. Consequently, the progressive cultivators are able to obtain a much higher output & income than their non-progressive counterparts.

There are some policy implications that can be drawn from Haryana experience. The Green Revolution in Haryana has led to much higher income of all the cultivators who have adopted the new technology. Simultaneously, it has led to increased demand for inputs and for hired labour. The result has been greater employment and incentives for agro-vased industries.

The Green Revolution in Haryana has also led to increased regional disparities between the Southern and the Northern Regions.

It is obvious that the only way to reduce these disparities is to extend the area of the Green Revolution to the dry regions of Haryana. Furthermore, it is important to extend the Green Revolution in the wet regions to smaller peasants who have been left out because of lack of resources.

In India as a whole, Haryana experience has important lessons. Firstly, the regional planners in the present stage of Indian development should look more to the reasons why agricultural developmentt is not taking place in many states. Some of the relevant questions that can be asked in this regard are the following:-

(i) why have certain regions recorded a larger agricultural growth? Is it due to the characteristic of new

technology in agriculture?

(ii) What is the role of State in this process particularly in relation to the provision of infrastructure?

(iii) How far the institutional factors are hindering agricultural development?

(iv) Where green regolution has taken firm roots? What specific measures can be taken to mobilise the surplus from agricultural and where can this be best invested?

We feel that answers to these questions should provide a fruitful and meaningful framework for regional economic development in India.

Income Distribution:

One of the most widely debated issue is the impact of Green Revolution on income distribution. Our conclusions in this regard are the following:

(1) The range of income difference between the smallest non-adopter the biggest adopter has lended to widen substantially. In this sense income inequalities have increased.

(2) Relatively greater number of larger farmers have been able to adopt the new technology and this has led to an accentuation of unequalities.

However, it is significant that on every category of cultivators has made substantial gains in income after the

adoption of new technology. In fact higher relative gains are recorded by the middle rather than the Very Big cultivators.

Furthermore, it is notable that there are less income inequalities among the progressive cultivators than those among the non-progressive cultivators in all the three regions of Haryana.

...

SUMMARY OF INCOME, CONSUMPTION AND SAGINGS IN VARIOUS REGIONS OF HARYANA

(Mean Values per household.Rs.)

Category	Net household income			Total consumption			Savings		
	North	Central	South	North	Central	South	North	Central	South
5 acres or less	2603.00	2088.85	1767.82	2960.73	27 0.76	2879.80	-357.73	-681.90	-1111.97
5 to 10 acres	5297.15	3071.25	3935.32	4325.10	3849.78	4239.45	972.04	-778.52	-304.13
10 to 20 acres	10377.90	5003.68	5272.31	5614.15	5097.80	5380.77	4763.74	- 94.11	-108.46
20 to 30 acres	16053.89	8381.46	8297.18	7681.46	8712.44	5220.48	8372.42	-330.98	3076.70
More than 30 acres	22552.90	14098.85	8754.59	12019.00	11403.42	7397.95	10533.90	2695.42	1357.00
Any size of holding	7810.74	5238.72	4238.10	4980.79	5360.66	4368.01	2829.94	-121.98	-124.90

All
% of t. income.
0.0
2.1
3.6
4.9
6.3
7.9
10.4
12.7
17.2
31.9
100.0

DISTRIBUTION OF INCOME OF PROGRESSIVE AND NON-PROGRESSIVE CULTIVATORS IN NORTHERN, CENTRAL AND SOUTHERN REGIONS OF HARYANA

Mobile Groups	Northern						Central						Central					
	Progressive		Non-Progressive		All		Progressive		Non-Progres-sive.		All		Progressive		Non-Prossive		All	
	Average Income	% ot total income	Av.in.	% of t. income.	Av.In.	% of t. income	Av.In.	% of t. income	Av.In.	% of t. income.	Av.In.	%of t. income	Av.In.	% of t. income	Av.In.	% of t. income	Av.In.	% of t. income.
0 - 10	1010.58	1.1	188.37	0.4	468.64	0.6	970.78	1.4	92.90	0.2	209.54	0.4	00.0	0.0	00.0	0.0	00.0	0.0
10 - 20	2388.63	2.6	800.57	1.7	1640.25	2.1	1802.88	2.6	929.07	2.0	1204.90	2.3	1524.88	2.6	835.91	2.1	889.99	2.1
20 - 30	2582.95	3.9	1224.41	2.6	2577.53	3.3	2496.30	3.6	1718.79	3.7	1885.93	3.6	1935.43	3.3	1432.99	3.6	1525.69	3.6
30 - 40	4685.40	5.1	1836.61	3.9	3514.82	4.5	3675.11	5.3	2322.69	5.0	2514.57	4.8	3343.02	5.7	1990.27	5.0	2076.63	4.9
40 - 50	5879.71	[illegible].4	2590.09	5.5	4686.42	6.0	4715.24	6.8	2880.14	6.2	3143.22	6.0	4574.65	7.8	2587.35	6.5	2669.96	6.3
50 - 60	7349.64	8.0	3296.48	7.0	6170.46	7.9	[illegible]	8.1	3484.04	7.5	3929.02	7.5	5102.40	8.7	3184.44	8.0	3348.05	7.9
60 - 70	9462.68	10.3	4567.98	9.7	7576.39	9.7	8033.68	11.6	4134.89	8.9	4714.83	9.0	5806.29	9.9	3940.74	9.9	4407.56	10.4
70 - 80	13229.95	14.4	6216.22	13.2	10856.89	13.9	9489.81	13.7	5156.38	11.1	6181.66	11.8	65.10.08	11.1	5095.10	12.8	5382.31	12.7
80 - 90	16628.56	18.1	9277.24	19.7	15230.38	19.5	12332.82	17.8	11799.29	25.4	8958.17	17.1	7683.07	13.1	7125.08	17.9	7289.42	17.2
90 - 100	27653.02	30.1	17094.61	36.3	25384.80	32.5	13234.26	29.1	18581.56	40.0	19645.12	37.5	22169.47	37.8	13613.48	34.2	14790.75	34.9
0 - 100	9137.05	100.0	4709.26	100.0	7810.71	100.0	6934.17	100.0	4645.39	100.0	5238.70	100.0	5861.96	100.0	3980.55	100.0	4238.04	100.0
Concentration ratio	.436		.513		.473		.423		.485		.478		.456		.472		.475	

Table IV

Gross Public Investment in Railways

	1860 - 1919 Amount Rs.Million	1860 - 1919 %	1919 - 1947 Amount Rs.Million	1919 - 1947 %	1860 - 1947 Amount Rs.Million	1860 - 1947 %
Bengal Assam*	416.3	10.6	616.7	10.0	1033.0	10.3
East Indian**	725.6	19.4	1332.2	21.6	2057.8	20.6
Bengal and North-Western	129.8	3.6	160.4	2.6	290.2	2.9
Bengal Nagpur	309.3	8.2	585.9	9.5	895.2	9.0
B.B & C.	355.2	9.3	542.7	8.8	897.9	9.0
G.I.P.	534.6	13.4	838.8	13.6	1373.4	13.8
North Western	740.9	19.1	1079.3	17.5	1820.2	18.2
M.S.M.	282.6	7.6	400.9	6.5	683.5	6.8
S.I	164.2	4.4	326.9	5.3	491.1	4.9
Burma	160.4	4.4	283.7	4.6	441.1	4.5
Grand Total	3818.9	100.0	6167.5	100.0	9986.4	100.0

* Assam-Bengal and East Bengal Railways were merged together during the Second World War.

** East Indian includes Oudh - Rohilkund Railways

Table V

Regional Distribution of Gross Public Investment in Economic Overleads

	North Western Zone		North Eastern Zone		Central Zone		Southern Zone		Burma		Total	
	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%	Amount Rs.Million	%
1860-1919	1755	25.5	2519	36.5	1483	21.5	807	11.7	335	4.8	6899	
1919-1947	2520	24.4	2688	26.2	2976	29.0	1653	16.0	451	4.4	10288	
Grand Total 1860-1947	4275	25.0	5207	30.3	4459	25.8	2460	14.4	786	4.5	17187	

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(March 3 & 4,1972)

S.No.	Name	Address	Paper
1.	Alagh, Y.K.	Director Sardar Patel Institute of Economic and Social Research Ahmedabad-6.	"Structure of Regional Imbalances in Industrial Development and Policies for the future".
2.	Bhat, L.S.	Indian Statistical Institute Yojana Bhavan New Delhi.	"The Process of Regional Development and the Issues Relating to Regional Imbalances in Development".
3.	Bose, A.N.	Industrial Economist C.M.P.O., 18-Rabindra Sarani Calcutta-1.	"A More Balanced Regional Development in India - The Main Bottlenecks in the way (some points for Discussion)".
4.	Chandrasekhar, C.S.	Additional Chief Planner Town and Country Planning Organisation Vikas Bhawan New Delhi.	"Regional Imbalances and Regional Planning : A Review of Regional Planning Efforts in India".
5.	-do-	-do-	"Regional Imbalances - Problems and Policies".
6.	Deva Raj	Director C.M.A., I.I.P.A., New Delhi.	"Administrative Problems of Regional Planning and Development".
7.	Khurana, I.R.	C.M.A., I.I.P.A., New Delhi.	"Disperal of Industries".

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S.No.	Name	Address	Paper
8.	Mathur, O.P.	Joint Director Planning Commission Multi Level Planning Section Yojana Bhavan New Delhi.	"Backward Areas in Poor Countries: Problems and Perspectives of Development (with Special Reference to India)"
9.	Mukerji, K.	Professor of Commerce University of Calcutta Calcutta.	"Stagnation of the Eastern Region in India : A Problem and a Challenge".
10.	Rao, Hemlata	U.G.C. Scholar Delhi School of Economics University of Delhi Delhi.	"Identification of Backward Regions and Trends in Disparities in India"
11.	Rao, P. P.	Joint Secretary Ministry of Works & Housing and Chairman Town & Country Planning Orgn. Vikas Bhavan New Delhi.	
	&		
	Sundaram, K.V.	Senior Research Officer Town & Country Planning Orgn. Vikas Bhavan New Delhi.	"Regional Imbalances in India - Some Policy Issues and Problems".
12.	Sandesara, J.J.	Professor of Industrial Economics Department of Economics University of Bombay Bombay.32 (BR)	"Financial and Other Incentives as Factors Attracting Private Industry to Backward Regions".
13.	Thavaraj, M.J.K.	Professor I.I.P.A., New Delhi.	"Public Investment and Regional Imbalances: A Historical Review 1860-1960."

S.No.	Name	Address	Paper
14.	Venugopal Reddy	Deputy Secretary Planning & Cooperation Department Government of Andhra Pradesh Hyderabad.	"Balanced Regional Development in India".
			<u>Background Papers (circulated to N.D.C. Meeting in 1968)</u>
15.			"The Fourth Plan Mid-Term Appraisal".
16.			"The Role of Financial Institutions in Correcting Regional Imbalances".
17.			"Industrial Licensing Policy in relation to Regional Development".
18.			"The Operations of Financial Institutions".
19.			"Grants-in-Aid to States".
20.			"Investment of Central Projects in Different States".

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AN ILLUSTRATIVE INCENTIVE MATRIX

	Policy Goals, Broader Considerations						Sectoral Preferences					
Range of Incentives	Large Scale	Small Scale	Capital Intensive	Labor Intensive	Imported Material Based	Local Material Based	Food Manufacture	Beverage Manufacture	Paper Products	Printing	Basic Metal	Machinery Manufacture
Fiscal Incentives												
Development rebate												
Exemption from income tax												
Exemption from payment of import duties												
Exemption from payment of excise duties												
Exemption from payment of sales tax												
Transport subsidy												
Monetary Incentives												
Interest rate rebate												
Concessions or fixed assets												

* It has only an illustrative value. The matrix can be made only in reference to some given goals and sectoral preferences. Important is to achieve consistency between goal preference and sectoral preferences. High, medium or low level of preferences can be shown with*.